CHALLENGE

THE MAGAZINE OF ECONOMIC AFFAIRS

Volume 8

1959-1960

Reprinted with the permission of the
Institute of Economic Affairs, New York University

KRAUS REPRINT CORPORATION
NEW YORK
1967

Copyright, 1959-60, by the Institute of Economic Affairs

Printed in U.S.A.

Challenge

THE MAGAZINE OF ECONOMIC AFFAIRS

CONTENTS
Vol. 8, No. 1
OCTOBER, 1959

Published by Institute of Economic Affairs, New York University

Haig Babian,
Executive Director and Editor

Senior Editor: Martin Kessler

Production Editor: Ted Berardicelli

Editorial Assistants: Dorothy L. Vix; Susan Turner

Business and Circulation Staff: Arline Feigen, Mgr.
AnnaBella Merendino; Esta Weiner

Chairman, Policy Board: Harold O. Voorhis

Articles

NEW BUSINESS RHYTHM.....*W. S. Woytinsky* 7
KEEPING OUR CITIES SOLVENT.....*Mabel Walker* 13
CAUSES OF HUMAN FAILURE.....*Robert W. Smuts* 18
FRANCE MAKES HER CHOICE.....*Paul Alpert* 24
THE FUTURE JOB MARKET.....*Seymour L. Wolfbein* 29
COMEBACK FOR COAL?.....*Nathan Belfer* 33
DENATIONALIZATION.....*Calvin B. Hoover* 44
POLISH GRAND EXPERIMENT.....*John Michael Montias* 51
DOES INFLATION STIFLE PRODUCTIVITY?.....*Benjamin Caplan* 58
THE NEW DEAL IN RETROSPECT, 2.....*Harold Fleming* 64

Interview

BRADLEY FISK..... 38
Deputy Assistant Secretary for International Affairs, United States Department of Commerce

Departments

A PERSONAL NOTE..... 2
LETTERS TO THE EDITOR..... 3
CHALLENGE NOTES..... 5
CHALLENGE PROFILE..... 49
ECONOMICS IN ACTION..... 56
THE PERMANENT FRONTIER..... 69
EVERYDAY ECONOMICS..... 74
READING REPORT..... 76
CHALLENGE QUIZ..... 79
DEPT. OF BETTER MOUSETRAPS..... 80

from the editor

a personal note

■ THE LONGER the steel strike continues, the more profound will be its effects on the future course of the economy. That public pressure will mount when steel shortages become apparent is obvious; but this is not what I mean. This steel situation has in it all the big issues of wages, prices, profits and productivity, which are germane to big business life today.

It is significant that the steel management chose this time to make its big stand. The abuses of labor unions had been in the headlines day after day for many months prior to the walkout by the steel workers. The steel union, therefore, fell heir to public resentment against *some* union practices engaged in by *some* unions.

No one in this country really thinks that the institutions of organized labor will be smashed. They won't be; they shouldn't be; and no intelligent businessman in tune with the realities of modern-day American life wants them to be. It is just unfortunate that in the public mind the resistance of management to union demands is tied so closely to the image of corrupt unions. Corruption is a side issue that can be curbed by effective legislation any time that Congress gets around to it.

The main issues revolve around profits and prices, which management doesn't want to talk about, and wages and productivity, which the union doesn't want to talk about because work rules are involved. Yet, these are just the things that need talking about; and I rather suspect they will not be seriously discussed until the public understands their significance to the future of our industrial complex.

These problems are not unique to the United States. In Great Britain, for example, there is a research group known as the Cohen Council, which was appointed two years ago to review prices, productivity and the level of incomes. A few weeks ago the Cohen Council published its third report, which stresses, among other things, the importance of lowering unit costs for the ultimate purpose of reducing prices. The Council calls the need to reconcile expansion with price stability "the great unsolved economic problem."

The report of the Cohen Council regards raising prices to maintain profit margins as an essential part of the inflationary spiral and says that wage restraint is likely to gain acceptance only if there is knowledge that a rise in profits will also be restrained. In this connection, the Council recommends that the government set up some sort of investigating body to look into the basic problem of preventing wages and profits from rising more than output. In substance, the Council calls price reductions "in the national interest."

Significantly enough, the Trades Union Congress failed to accept the Council's invitation to participate in its studies. Also, one wonders how much British industry will take to heart the recommendation that price reduction becomes a principal objective for all concerned.–H. B.

letters TO THE EDITOR

Farm retort

• Mr. Robert Lekachman [*The Last Proletariat?*, July, 1959] must have written his article from an ivory tower on the Barnard campus. It doesn't sound as though he had ever gotten any mud or manure on his shoes visiting horse farms or dairy farms in this area, or even the big ranches out West.

Horse and dairy farm wages–plus the houses, utilities, garden and garage, etc., which are regularly furnished–plus the saving of withholding tax, etc., give farm workers a better relative family income than many city workers. The situation is not nearly as bad as it used to be, except perhaps for the migratory workers. Your article is so unjust to well-meaning farmowners and employers.

HAROLD D. MENKEN

Upperville, Va.

Grand high dive

• In *Stock Market Fever* [July, 1959] there are a number of points concerning technical analysis with which competent technicians could, and probably have, taken vigorous exception. For my part, however, I direct attention to the glaringly inaccurate statement that "today's turnover of 3.9 million shares would have to jump five times to equal the 1920-29 rate of 20 million shares a day. The degree of reckless speculation is much less than it was in the late Twenties."

The fact of the matter is that today's turnover of 3.9 million shares is more than double the 1920-29 rate of 1,741,220 shares per day. In no day during the cited period did volume ever reach 20 million shares, the largest total for any day being 16,410,030 shares on October 20, 1929. The public is now sitting on a 50-megaton H-bomb, blissfully unaware of their dire peril. Yes, we're all set for the grand high dive.

R. R. SMITH

Dundee, Ore.

The New York Stock Exchange has just published its "Monthly Review" for August, 1959. This publication shows that there are now approximately 5.5 billion shares of stock listed on the New York Stock Exchange, and the volume of trading, even in July, when the daily average turnover was 3.2 million shares, represented a turnover at the annual rate of only 15 per cent. In 1928 and 1929 the turnover was at the rate of more than 100 per cent. This indicates that while there have

been a number of disquieting developments that were pointed out in our article, rampant trading on the scale of the late Twenties has been absent.—R. L. WEISSMAN

Professional slant

• I am renewing my subscription to CHALLENGE instead of renewing a gift subscription to a weekly news magazine. I like the professional slant better, it is more apt to be unprejudiced.

RUDY HUELSTER

Elgin, Ill.

Solid gold stability

• I was considerably disturbed to read in the June issue the views expressed by Mr. Villard in his *The Myth of Monetary Stability*. The article seemed to consist primarily of a rehash of the late John Keynes' economic theories. It is certainly a surprise to have a writer expatiate upon such theories at this late date, especially after they have produced such serious monetary and fiscal difficulties. Mr. Villard's main thesis seems to be that a continued inflation is preferable to some unemployment and to temporarily losing the prospect of an expanding economy. He forgets that the inevitable result of continued "creeping" inflation is very likely to be followed by "galloping" inflation, with the end result of national bankruptcy. I prefer balanced federal budgets, a return to the gold standard and a sound dollar, even at the expense of some unemployment, higher taxes and a period of austerity until we get our "second wind" and until we have lived up to our present degree of inflation by saving enough to extinguish the excess purchasing media created by the commercial banks (which are the prime cause of our economic troubles). When a nation has for a quarter century been making the monetary and fiscal mistakes which we have made, it must take its medicine, the same as a private individual has to do. More of the same mistakes won't get us out of the mess.

IRVING G. STETSON

Bangor, Me.

Some need to know

• Jack Raymond has posed some interesting questions in his article on government secrecy [July, 1959]. But his case is confined only to information that is or is not released to the newspapers. What about the government's secrecy policies in connection with scientific information? Federal agencies have now adopted a policy requiring scientists to prove their "need to know" before information on "vital" subjects can be given to them. In one instance, Dr. Fred Singer of the University of Maryland had to go to Russian sources to get data on Mechta, the Russian moon shot, because the government did not believe he "needed to know." In another case, Dr. Christofilos of the University of California could not discuss his theory of radiation trapped in space before a public audience because the government was not yet ready to disclose its Argus experiments, even though they had been detected by the Russians when they went off. No one in government has yet been able to advance reasons for such restrictions on any grounds approaching rationality. The picture is one of our leaders defending us, but I sometimes wonder what they are defending us against.

RACHEL MAIORANO

New York, N.Y.

Challenge Notes

Curbing union power; a constructive approach to automation; selling iceboxes to Eskimos; protection against radiation

■ WHAT IS OFTEN SAID about generals–that they are superbly well prepared to fight the last war–applies rather better to reformers. Changes in military technology are usually dramatic and abrupt; even the most tradition-bound general must adapt his strategic thinking to the realities of the hydrogen bomb and the intercontinental ballistic missile.

Social and economic change, on the other hand, is cumulative. The beginnings of a social trend generally pass by unnoticed. As a result, the reforms of today almost invariably seek to correct the abuses of yesterday.

The current move to curb the power of labor unions is a case in point. As of this writing, it seems virtually certain that Congress will pass a "tough" labor bill. For the first time in more than 30 years, legislation to curb union power enjoys widespread popular support.

What is ironical about this is that the power of labor unions was already beginning to decline during the late 1950s without the benefit of legislation. While employment in manufacturing industries has increased by only eight per cent since 1945 (almost all of it before 1950), employment in the service sector has increased by some 40 per cent. Already, more than half of our labor force is concentrated in service industries, and government experts expect this trend to accelerate in years to come (*see page 29*).

Since union efforts to organize service and white-collar workers have thus far proved spectacularly unsuccessful, this means that the unions must resign themselves to a relative decline in their control of the labor market. And, no matter how firmly entrenched they continue to be in manufacturing industries, this cannot help but greatly reduce their influence in the nation's economic life.

The moral of all this seems to be that by the time the reformers legislate against the sacred cows, the cows are no longer sacred.

Constructive approach

While most of this summer's labor disputes have followed the rather dreary ritual of the postwar years–with management shouting "costs" and the unions answering "profits"–there has been evidence of a more constructive approach. The recent contract between Armour and Co. and its meat-packing unions is an example of an honest attempt to tackle a genuine problem: automation.

The agreement provides for a fund (in this case, company financed) and a joint labor-management committee which will "make every effort to cushion" the effects of unemployment caused by automation. The aim of the committee will not be to halt automation, but rather to retrain and relocate workers wherever possible so that automation does not render them, as well as their skills, obsolete.

What is important about this contract is that management specifically recognizes that automation does often result in layoffs–in Armour's case, more than 35 per cent since 1956. The union, for its part, recognizes that slowdowns and featherbedding will, in the long run, render their jobs even more obsolete than automation. And both union and management are showing how we can solve one of our biggest economic problems–the preservation of maximum growth and employment at stable prices.

Iceboxes for igloos

Even the most fervent believer in Madison Avenue's ability to create "new" needs would wager that "it couldn't be done." Coal may now be shipped to Newcastle, but selling iceboxes to Eskimos is surely beyond the capacities of the most dedicated advertising genius. Apparently, it is easier to "underestimate the power of a woman" than the ingenuity of an adman. According to latest reports, the igloos in Canada's Northwest contain all the newest appliances–including refrigerators.

Science marches on

Dr. R. F. Kimball of Oakridge National Laboratory has found that certain animals can be protected against the ill effects of radiation through starvation. The essential thing, according to Dr. Kimball, is to slow the animal's growth processes and thereby delay cell division. To put it in more human terms: if we don't have the brains to avoid nuclear war, we can at least starve ourselves to death and protect our nonexistent progeny from the harmful effects of radiation.–M. K.

NEW BUSINESS RHYTHM

by W. S. Woytinsky

Big depressions are things of the past, but the postwar rhythm of one recession every four years is a serious brake on economic growth

■ ECONOMISTS in the United States do not often agree. But today there is a far-reaching consensus among them that our economy has finally completed its recovery from the low point of the *recession* and is now in a phase of *expansion*. Most of them also agree that this expansion will continue a year or more before it begins to lose momentum. Then, after reaching a new peak, the economy will suffer a new contraction. Some experts believe that the next business downturn will begin in 1961; and the one after that in 1965.

These are not prophecies. The present state of economic theory and statistics does not warrant precise prediction for more than one or two years. On the other hand, the new tendency in economic thinking expresses widespread recognition of a definite new *rhythm* in our economy–a regular succession of four-year cycles that has characterized the past 12 years. The striking regularity in fluctuations of business conditions throughout this period suggests that similar setbacks will continue to follow one another at similar intervals.

Now, such a rhythm has never before been observed in the economic history of the United States. Studying the ups and downs in U.S. economic activity between 1796-1923, Wesley C. Mitchell found 32 "cycles" with an *average* duration of four years. But there was no rhythm in their succession.

The duration of individual cycles ranged from about one year to nine years; there were 15 short cycles (one to three years), 12 long cycles (five to nine years) and five four-year cycles. Furthermore, only three times during these many decades did a cycle of a particular duration follow one of the same length. In general, ups and downs came at irregular and unpredictable intervals.

Erratic and violent

The most unexpected, erratic and violent of all our economic setbacks was, of course, the Great Depression which started in the autumn of 1929, lasted about a decade and left a deep impact on the economic and social structure of the nation. Driven to despair, the people gave the government a mandate to put an end to misery. As a result of the reforms born of this mandate, the economic life of the United States was channeled into the new bed.

The shift of our economy from the erratic fluctuations to the new rhythm was not wholly unexpected by this writer. In the postwar discussions of our economic future I always stressed two points: first, that the reforms of the 1930s had created "stabilizers" that would protect our economic system against *major* depressions; and, second, that we had not yet succeeded in preventing *minor* economic setbacks. Thus, in a 1947 edition of *Life* magazine I was able to predict the recessions of 1949, 1953, 1957; and I foresaw further recessions for 1961 and 1965. The projection however, was not intended as prophetic hocus pocus. Its only purpose was to illustrate the new pattern of business cycles in contrast to the previous boom-and-bust era.

While this new rhythm of the U.S. economy is beginning to be recognized by the experts, the general public has paid very little attention to it. As long as the economic news is bad, the press is concerned with recession. But as soon as there is an upturn, interest wanes. Newspapers follow closely the labor-management disputes, the ups and downs of the stock market, the real or imaginary danger of inflation and similar issues, but few people realize that these are no more than ripples on the surface of our economy. The vital issues are the *speed* and *rhythm* of economic progress, that is, the average annual rate of growth of production on the one hand, and the extent to which this rate is affected by periodic setbacks on the other.

All three postwar recessions have been comparatively brief and mild. At the depth of the recession in 1949, GNP ran about four per cent below the prerecession peak. In 1954, the setback was less than

three per cent; in 1958, four per cent. By contrast, the GNP contracted 30 per cent at constant prices during the Great Depression.

Moreover, the duration of postwar recessions–from the prerecession peak to the return to the same level after the upturn–has averaged a year and a half, while the duration of the Great Depression may be estimated at between eight and 10 years, depending on the method of measurement.

The direct loss in production of goods and services caused by each of the postwar recessions has been relatively small–some $10-$15 billion. The loss in production during the Great Depression, by way of contrast, amounted to $250 billion at 1954 prices.

Another feature common to the three postwar recessions is that they have been concentrated in the sphere of private *investment*–that is, in changes in inventories and production of producers' durable equipment–and have not seriously affected personal *consumption* expenditures. At the depth of the recession in 1949, total personal consumption was only one per cent below the prerecession peak; in 1954, the loss was 0.8 per cent, and in 1958, 0.7 per cent. How different from the 20 per cent drop in personal consumption expenditures, at constant prices, during the Great Depression!

The shift from piling up inventories to partial liquidation of them accounted for *all* the contraction of economic activity in the first postwar recession and for more than half the contraction in 1954 and 1958. Other characteristic features of the postwar recessions were:

- They did not affect the income of farmers and people in country towns.
- They did not cut deeply into the total earnings of workers in spite of the considerable rise in unemployment.
- They were not accompanied by large-scale repossessions of goods purchased on installment and brought only a slight increase in the rate of commercial failures and foreclosures.
- They did not spread to building construction and related business.
- They were not followed by price cuts.

Important changes

These features are all closely interrelated, and they all reflect changes in the institutional setting I mentioned at the beginning of this article. The most important changes have been:

- The social security programs, especially the unemployment compensation system.
- Support of agricultural prices and farmers' income.
- Collective bargaining and wage contracts, especially long-term

contracts with built-in escalator clauses, signed before a business downturn.

•The weight of the public sector of the economy, immune to fluctuations in business conditions, which now represents about 25 per cent of the GNP as compared with less than 10 per cent in 1929.

Institutional setting

Investment in and production of capital goods (including producers' inventories) has always been the least stable sector of the economy. Most depressions have started in this economic sector. Consumer goods industries have usually been struck by depression later than capital goods industries as a result of contraction in the purchasing power of the workers laid-off in the capital goods industries. Old-style depressions have generally been fed by dwindling purchasing power and falling prices. Under the new institutional setting, this sequence no longer exists. The recession rages within a limited sector surrounded by jetties and dikes. Some people take these structures for granted while others would prefer to see the economy free of controls and regulations. But most people agree that the contrast between the relatively mild postwar recessions and the economic collapse of the early 1930s is the best proof of the lasting value of the new institutions.

This is the bright side of the new rhythm in the U.S. economy. It has, however, still another aspect.

At first sight, the postwar recessions seem tame and harmless. In a public dispute about the economic setback of 1953-54, I described it as a *recession de luxe*, and this term could also be applied to the recessions of 1949 and 1957-58. These setbacks caused suffering to many workers' families, but they did not change the general picture of prosperity in our cities and did not appreciably affect the standard of life of the great majority of the people. But the *cumulative effect* of the new economic rhythm has proved very harmful to the national economy.

The most harmful impact of the postwar recessions has come in slowing down and temporarily arresting the growth of production. After the setback of 1948 it took five calendar quarters before the GNP returned to its prerecession level; in 1953-54, six quarters; in 1957-58, seven quarters. In all, during the 12-year period from 1947 through 1958, our economy was expanding seven and one-half years and either retreating or regaining lost ground during the other four and one-half years. Two and one-half years of advance; a year and a half of muddling through the recession; then again two and one-half years of sound

progress; and once more a year and a half of muddling through. The total gain in production was about 45 per cent, which is a fairly good record for seven and one-half years–an average annual rate of advance by 5.2 per cent. But when the gain is prorated over 12 years, the average rate of gain is reduced to about 3.2 per cent. In terms of production per capita of population, which is the only realistic measurement of economic progress in a nation, the annual rate of growth has been about 3.5 per cent in the years when the economy was in good health, and only 1.5 per cent when the gains are prorated over the entire period. The first rate would be sufficient for satisfying the workers' demands for higher wages, for improving public services, ensuring national security and supporting an effective and generous foreign policy. The latter rate has been dangerously low.

Per capita GNP

Between 1953 and 1958 the national economy advanced during only 11 quarters, while 13 quarters were marked either by contractions of production or by a return to pre-recession levels. While GNP increased by 6.5 per cent, the population of the United States increased by 8.9 per cent. *As a result, GNP per capita in 1958 was lower than in 1953.* Furthermore, the physical volume of industrial production was the same in 1958 as in 1953, which means that in 1958 industrial output per capita of population was about eight per cent *below* the 1953 level.

The United States is still the greatest economic power in the world and enjoys the highest standard of living, but its economy has lost–temporarily, I hope–its dynamism. The average annual rates of increase in productivity and expansion of industrial production in 1953-58 have been lower in this country than in any other of the almost three dozen countries for which comparable data are available.

This phenomenon can be interpreted in various ways. But there is little doubt that the immediate cause of the slowdown of economic progress has been the succession of minor recessions at brief intervals. Individually, each recession has been no more than an indentation on the road of economic progress, but together they have been holding us back. Our current GNP lags approximately 20 per cent behind what it would have been if the national economy had been advancing without interruption for the past 12 years at the same rate as in its seven and one-half years of good health. Without the three postwar recessions, our GNP would now be running at an annual rate of about $600 billion,

instead of the current $500 billion. The cumulative *loss* to our economy cannot be estimated with the precision required for the balance sheet of a business concern. But estimates I have undertaken, starting from various assumptions, range from $400 billion to $500 billion at 1958 prices–approximately the same order of magnitude as the cost of our participation in World War II.

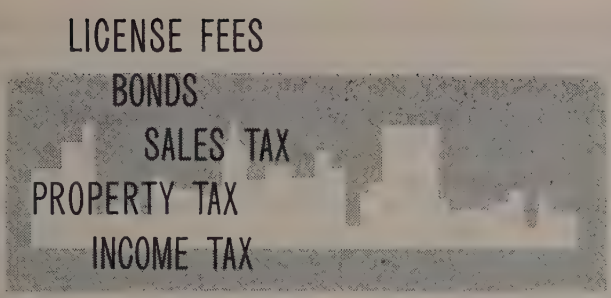
This conclusion may seem inconsistent with my appraisal of the role of stabilizers in our economic system. There is no inconsistency, however. The seriousness of the problem of economic growth does not take away from our accomplishment in solving the even more difficult problems that faced us a quarter of a century ago.

But recent economic developments in this country have shown that it is not enough for a nation to be protected against *major* depressions. To develop its economic forces and keep pace with economic progress in the rest of the world, the United States must free itself from minor recessions, or at least drastically reduce them. Our job is to speed economic growth by timely detection of an approaching contraction in a particular economic sector and offsetting it by an adequate expansion in other areas of the economy. It will take time and patience to develop such programs, and it will take bold and wise leadership to mobilize the forces necessary for enactment and implementation of the necessary new regulatory and protective measures.

There is a good chance, however, that the same forces that were at the forefront in the struggle against the Great Depression will again sponsor the flow of reforms prematurely interrupted by the war. Ironing out the new rhythm in our economy is one such reform. ■

Long Lifespan for Eggheads

CONTRARY TO POPULAR BELIEF, intellectual work does not "wear out" the brain. A Swedish researcher, Prof. E. Ask-Upmark, recently found that "intellectuals" actually have a longer life span than persons employed in less intellectual work. Swedish professors, with an average lifetime of 68 years, and American professors, with an average of 67 years, live longer than streetcar conductors or typographers (with an average lifetime of 61 and 58 years respectively). Intellectual strain, according to Prof. Upmark, does not increase the risk of brain tumors or cerebral hemorrhage. Causes of death among the professors were no different from those of persons whose work required less intellectual effort. Analysis of the causes of death of a group of Swedish professors showed that one third died from cardiovascular diseases. Cases of tuberculosis, pulmonary cancer and suicide were few among the professors.



KEEPING OUR CITIES SOLVENT

Population shifts and changing socio-economic conditions make the job of financing essential municipal services increasingly difficult

by Mabel Walker

■ CITY GOVERNMENTS are finding it increasingly difficult to finance essential services. Back in 1945, those cities with populations of more than 25,000 were only spending about $2 billion for their general operation. By 1957, their expenditures had jumped to $7.7 billion.

And yet it is debatable whether municipal standards of living have risen appreciably during the postwar period. Nor does there seem to be any reason to believe that municipal administration is less efficient than formerly. Indeed, the reverse is probably the case. Neither plush municipal living nor an increase in inefficiency explain the increase in municipal expenditures.

What, then, are some of the reasons for this extraordinary increase in spending? For one thing, population has grown rapidly since the war and cities have grown even faster. In 1945 there were only 397 cities with more than 24,000 inhabitants; by 1957 the number had increased to 481.

The postwar period has also seen a substantial inflationary price rise that has done its part in adding to local costs. In addition, many of the cities are still trying to make up for the time they lost during the war, when manpower and materials shortages and a desire not to interfere with the war effort shelved many large projects. Finally—and most important—changing economic and social conditions are imposing heavy new burdens on the local government.

The cities have struggled valiantly to boost their revenues in

order to meet their new responsibilities. But according to a recent survey by *The Wall Street Journal*, more and more local governments are having to resort to cutbacks in services, postponed capital expenditures and debt increases.

Call for aid

Receipts from the property tax, long the mainstay of local governments in this country, are becoming increasingly inadequate. For a long time, as land values in the cities rose, the increased yield from the property tax sufficed for the growth in city needs. But in the last few decades, the cities have had to call for substantial state and federal aid. Even more recently, they have begun to utilize non-property tax sources.

Another source of revenues has been municipal bond issues, which are, at present, enjoying exceptional popularity. Not only are their yields exempt from federal income taxation, but–in view of the exemption–they are surprisingly high. The cities (and the states) have been borrowing faster than savings are becoming available for the purchase of their securities. As a result, today's borrowing rate is double that of a decade ago.

Well-secured local authority bonds issued to finance public utilities, airports, transit and bridge and tunnel operations have been offering even higher yields. *The New York Times* reports that in one week "The average yield to maturity on these tax-privileged bonds was 4.75 per cent. To a corporation investor, this would be equal to a yield on a Treasury or other fully taxable bond of 9.9 per cent, and to a private individual in a $50,000-income bracket, taxable at 75 per cent, to a yield of 19 per cent."

Altogether, municipal indebtedness reached an all-time peak of $18.8 billion in June, 1957. (Cities over 25,000 accounted for $15.2 billion of this amount.) If it continues to rise at this rate, the credit rating of the cities might be seriously affected.

Urban revolution

The cities' financial woes are only symptoms of more profound social and economic changes that are inaugurating a tremendous urban revolution. But neither the citizens nor their officials seem to be generally aware of this. Repeatedly, responsible civic leaders have been caught red-faced by new trends uncovered by statistical data and research surveys. In New York, for instance, the special census in 1957 showed that the city had been losing, not gaining, population, and a recent report on a study conducted by Harvard University for the Regional Plan Association indicated that the city was also losing ground industrially.

The handwriting on the wall had been fairly legible for some years, but few cared to read it.

Certainly the cities cannot solve their real problems unless they can interpret with reasonable accuracy the causes of those problems. Realistic understanding of the enormous changes taking place is a basic first step.

What, briefly, are these changes? First, an unanticipated and explosive growth of population that has brought with it unprecedented needs for new schools, roads, housing and services. The problems of supplying water for increased individual and industrial demands have become acute in some places. The disposal of sewage and industrial wastes; the problems of controlling pollution of land, water and air by industry, automobile exhaust and atomic radiation; paralyzing traffic congestion; the need for highways and parking facilities; overcrowded hospitals; and the growing social deterioration as evidenced by crime (particularly juvenile delinquency), alcoholism and narcotics addiction–all these constitute a vast complex of baffling problems for the cities.

Industries move away

At the same time, important sources of city tax revenues have been moving away to the suburbs. The appearance of regional shopping centers in the suburban fringes, for example, has shifted large tax resources from the central city to the suburbs. Industries, too, have followed the move from the city. More and more plants are being built in suburban areas. And, in many cases, while the suburbs enjoy their new tax receipts from industries and middle-class homeowners, many of the workers and their families still live in and demand services from the city government.

Even if it had the funds it needs, the city would still be powerless to grapple with many of its problems on a sufficiently wide area basis. In the case of our larger metropolitan complexes, moreover, there is no reason to believe that the city can ever be enlarged to the point where it can deal effectively with many of the "metropolitan" problems it faces. Besides, the area needed for the successful functioning of one service is not necessarily the same as for another.

Except for scattered instances, attempts at solving these problems on an intercommunity basis have not been successful. There is often blatant competition and rivalry among neighboring local units.

The city's major limitation is a legal one. It has no attributes of sovereignty. It is the creation of the state and enjoys only such powers as are granted to it by the state. And it is particularly limited in its taxing powers.

Since the war, some states such as California, Colorado and Illinois have made substantial grants of taxing powers to their cities. Cities in Maryland may, with exceptions, levy any tax that is levied by the state. Ohio and Pennsylvania cities, on the other hand, may only levy taxes that are not being used by the state, again with exceptions. New York permits its cities to levy only specified taxes. Other states specifically prohibit cities from imposing certain taxes.

Law vs. expedience

A few of the larger cities–New Orleans, New York and Philadelphia–obtained special taxing powers as far back as the Thirties. But they do not always use what has been given to them. For example, New York City refuses to impose a payroll tax, a motor vehicle tax or an overnight parking levy, all of which are available to it.

But taxing alone cannot solve the whole of the cities' troubles. In considering local taxes, we have to keep in mind the admonition of St. Paul that things that are lawful are not necessarily expedient. A city has a sharply limited area and is, therefore, highly vulnerable economically. No matter how equitable or how productive a tax may be, it is folly to utilize it if it will have an adverse effect upon the city's economy.

Plants, stores and other enterprises can move away from the cities. As they go, they take with them taxpaying potential, as well as jobs. Individuals who thereby lose their jobs and individuals who may resent the city's tax structure can likewise move away. Here, too, the city loses taxpaying potential.

Of course, additional revenue could be obtained in many places through more efficient administration. Also, in some cities, but by no means all, property tax increases might be justified. But, by and large, we cannot look to the property tax for a way out of city financial difficulties.

As far as federal and state aid are concerned, there are limits. The demands upon both the federal and state government are already heavy. Moreover, there is some evidence of increasing taxpayer resistance.

The cities whose political boundaries limit them to the truncated core of a great metropolitan area will have to find some way of deriving support from their commuter and contact areas. Annexation of outlying territory is definitely not the answer, although in the case of many cities logic appears to dictate–even if politics circumvents–the annexation of considerable territory. And metropolitan supergovernments, even though they may be desirable in some cases, will make their way slowly in this country.

Of course, city governments can continue the process of self-destruction by setting up authorities to conduct specific governmental functions. But this is an expedient born of defeat and desperation.

Vital services

Yet city services are vital and ways must be found to finance them. The only feasible approach may turn out to be a pragmatic one, consisting of piecemeal, opportunistic and diverse expedients. For instance, the city may have to develop various cooperative and contractual relationships with its neighbors. This could be advantageous to both city and outlying areas with respect to water supply, sewage disposal and many other functions that could more effectively and more economically be provided over a large area. There has been considerable experimentation along these lines in California and some utilization of this expedient in other places.

The cities may have to demand that state legislatures grant them adequate taxing powers. The leading nonproperty taxes that are already being utilized by cities are: the public utility gross receipts tax, the admissions and amusements tax, the business gross receipts tax, the retail sales tax, the poll tax, the motor vehicle tax, the cigarette and tobacco tax, the net income (flat rate) tax and the gasoline tax.

The flat rate income tax falling upon individual income and the net income of business is by far the most productive of these taxes, with retail sales, gasoline and business gross receipts taxes coming next. The flat rate income tax also has other advantageous features. It is more equitable than sales or gross receipts taxes, and it is the most effective tax in reaching the commuter population. These taxes are now being used in 33 cities with populations over 25,000 and in a number of smaller places. Their utilization is considerably less defensible in the smaller places.

But these are merely expedients. The real problem remains. If the cities are to deal effectively with their fiscal problems, they must know what is taking place before them. ■

Americans Abroad

TRAVELING AMERICANS spent a total of $2 billion on foreign travel in 1958. One third of this total was spent for transportation. Four out of five Americans traveled by air, compared with only two out of three in 1954. The United States' nearest neighbors, Canada and Mexico, were visited by the largest numbers. Next in popularity was Italy, followed by France and Great Britain.

causes of human failure

by Robert W. Smuts

We know what they are, and many of them are unpreventable

■ THE COLD WAR has gradually made us realize how dependent we are on the quality of our human resources. Unfortunately, we are concentrating on developing these resources in a one-sided way. While we are looking for ways to build our supply of human excellence, we neglect to recognize that the U.S. now has far too many people who simply cannot meet the *minimum* requirements for social existence. These are the people who cannot hold a job, take care of a family or even stay out of jail. Institutions are maintained to keep them, public support is provided for them and their families and their potential contribution to the nation's wealth goes down the drain. Perhaps more important than the dollar cost is the loss of human dignity. And even greater than the immediate cost is the ultimate cost which results from the handicaps the ineffective parent passes on to his children.

A unique study of this kind of human failure has recently been published by Columbia University's Conservation of Human Resources Project. *The Ineffective Soldier: Lessons for Management and the Nation* by economist Eli Ginzberg and his associates is based on a massive collection of data by the armed services, the Selective Service System and the Veterans Administration about human performance during and after World War II. The study turned up little information about the 3.5 million men who were rejected by the armed services for physical reasons, or

the 1.75 million who were rejected for mental and emotional defects. But it did reveal a great deal about the qualities of a group of 750,000 men who, after induction, were found unfit to continue in the service of their country at the time of its greatest need. Only 20 per cent of these men were ever in combat; most of them were unable to get along adequately with only routine assignments right here in the States.

About one out of every four of the Army failures was discharged because he could not learn. A few of these were true mental defectives, but most of them were handicapped mainly by a lack of education. Another one out of 10 showed undesirable habits and behavior–alcoholism, homosexuality, bed-wetting, chronic rule-breaking. Another one out of 10 was psychotic–in common language, insane. But the rest, more than half of the "ineffective soldiers," were discharged because they developed neurotic difficulties. They became tense, anxious and upset–too nervous to work effectively.

The study was able to check the prewar and postwar records of a large sampling of these men. Their civilian performance was rated "acceptable" if they were able to work regularly and stay out of trouble with the authorities. But even by this minimum standard, more than a quarter of them failed during the 10 years after they left the service. Most of these men had been equally "ineffective" before the war.

On this basis, one might estimate that, of all the physically healthy young men in the U.S., at least one out of every 25 is unable to meet the minimum demands of social living because of mental or emotional difficulties. But this is not the whole of the problem. For every man who failed in civilian life, the study found many more who "succeeded" only at the lowest level of performance, wresting a meager living from a marginal farm or unskilled job.

So much for the size of the problem. Just what are its causes? What conditions in American life bear the major responsibility for producing such severely handicapped adults?

The prime cause of failure, whether in the Army or in civilian life, is lack of adequate education. Men who had not gone beyond grammar school were twice as likely to fail in the Army as men with more education. After the war, this group accounted for three out of every four of the "ineffective soldiers" who also could not readjust to civilian life.

In spite of this country's proud tradition of free, compulsory education, the armed forces rejected 750,000 young men because they could not read and write. Another

200,000 were accepted and discharged later for ineptitude, mainly because they had had too little education to absorb military training. And still another 300,000 were retained only after they were sent to special schools to learn what they should have learned in the first four grades of public school.

Of course, the proportion of young people who grow up with at least the rudiments of an education has been steadily increasing since the war. Yet there is still no reason for complacency. The Census Bureau reports that 20 million children in the United States between the ages of five and nine are now beginning their school careers. If we can judge from the last few years' increase in the educational completion rates, about 1.5 million of them will never go beyond the eighth grade. About 300,000 will not go beyond the fourth grade. And at least 100,000 will leave school before their first year is completed. Census estimates show that the absolute *number* of children who get little or no education will probably increase.

Rural poverty

A second national problem which contributed substantially to wartime failure was rural poverty. The poor farmer, in spite of his familiarity with hard, outdoor work, had the most difficult time adjusting to Army life. Only about one fourth of the men taken into the Army were farmers; yet they accounted for nearly 40 per cent of the men who were prematurely discharged.

Here again, lack of education played the principal role. Many of the young men from our rural districts were also handicapped by the poverty and isolation of their early years. They were unfamiliar with the complex world around them, or with the simplest requirements of living and working in an organization. Even though most of these men were rated "acceptable" when they went back to civilian life, it was only because they had returned to the simple life from which they had come.

Today, huge crop surpluses and subsidies are considered to be "the farm problem." It is so easy to forget that we still have an older and much more dangerous farm problem: in prosperous 1956 more than a million farm families earned less than $1,000 a year and almost 600,000 were getting less than $500. These farms produce only one surplus crop—children, many of whom are doomed to repeat the narrow and unproductive lives of their parents.

The third great source of wartime failure grew from the position of racial minorities in American life. Only about one tenth of the American people are Negroes. Yet Negroes accounted for nearly

half the men rejected for service because of mental or educational deficiency for one fifth of the "ineffective soldiers," and for half of the "ineffective soldiers" who also failed in civilian life.

Stunting effects

The poor showing of Negro soldiers was a direct result of the stunting effects of little or no education and of poverty than any other group in the U.S. At the outbreak of the war, half the Negro population could be found in the poorest farm areas of the South, and nearly one eighth of all Negroes were illiterate. Both in the service and in civilian life, they faced the corrosive effects of discrimination and segregation. Even the well-educated Negro soldier often lost his motivation to serve when he was deprived of the opportunity to use his abilities. But lack of schooling was the principal barrier to effective Negro performance. Given the same amount of education, Negroes and whites showed about the same rate of failure in military and civilian life.

In spite of the progress made in the last two decades, we still have far to go before the conditions which handicap our Negro citizens are eliminated. In 1950, more than one third of the Negro population still lived in the rural South. One Southern Negro boy out of five grew up with no more than four years of education, and three out of five never got to high school. As late as 1956, nearly half the Negro farm families were earning less than $1,000 a year. Northern Negroes fared much better, but by every measure–education, occupation, income, housing–they were still far behind the white population.

Of course, there are other conditions that produce "ineffective" soldiers and civilians. Mental illness, for example, strikes people from every walk of life. But the related problems of inadequate education, rural poverty and racial discrimination are often responsible for the largest numbers of severely handicapped people.

Tools of literacy

What are some of the things that must be done to reduce this gross waste of the nation's most valuable resource? Our first step is to provide every child with the tools of literacy. But this requires more than the physical presence of schools and teachers. Our study found many men who had gone through elementary school and even into high school, but who could not read and write. As a rule, the most handicapped men had attended the poorest schools in the slums of the North as well as the isolated hills of the South. The schools that will teach their children are still ill-equipped, under-

staffed and entirely unsuited to meet the special needs of their students.

Our tendency to keep more young people in school longer is doing more harm than good to the large numbers of students who fail to acquire the basic fundamentals in their early school years. Of course, it is desirable to increase the number of high school and college graduates, but even from this viewpoint, the best place to begin is by providing every child with a complete and meaningful *elementary* education.

The principal barrier to truly universal elementary education is rural poverty. Aside from the fact that poor communities can afford only poor schools, it is next to impossible to achieve regular school attendance in the sparsely settled hill regions of the South, or the still more sparsely settled grazing lands of the arid Southwest. For the children of the one million migratory farm workers, regular school attendance is completely out of the question. Moreover, the best of schools cannot entirely overcome the stunting effects of poverty, ignorance and indifference in the home and in the community.

It is unlikely that this complex of problems will ever be fully solved without relocating the most deprived rural population to areas where educational and employment opportunities are better. But these are the very people who are least prepared for any such move. Therefore, no program to provide all children with the educational essentials can ignore the need to help their parents find a better way of life.

Circle of failure

The Army has shown that the circle of failure can be broken at relatively low cost. Some 300,000 illiterate soldiers were given an intensive 12-week course in basic literacy. An earlier study by the Conservation of Human Resources Project (*The Uneducated*, Ginzberg and Bray, 1953) found that the overwhelming majority became effective soldiers and civilians.

The difficulties of eliminating illiteracy and rural poverty are compounded by the fact that a large minority of the victims of these conditions are also victims of racial discrimination and segregation. Military experience again provides some lessons that the nation might well heed. When Negroes and whites in the armed forces received the same advantages, no appreciable difference could be found in their performance. The obstacles to integration were also found to be exaggerated. Racial integration in the services during and after the Korean conflict was accomplished far more smoothly and easily than was ever thought possible. The only important conse-

quence was a marked improvement in the performance of Negro troops.

Perhaps the most important prerequisite for reducing human failure is the maintenance of a growing economy with full employment. Prosperity makes it easier to pay for more and better schools. People have a better chance of escaping from rural poverty when there are jobs for them to go to. They can then afford to give their children advantages they themselves never had.

But prosperity alone will not eliminate the self-perpetuating pockets of human wastage–which persist through good times and bad –in the South, in the Spanish speaking and Indian sections of the Southwest, in northern New England and in other parts of the country.

The federal government must take the lead in attacking the social conditions that lead to human failure. No other agency can muster the assistance that the poorest school districts in the poorest states must have.

But the federal government can accomplish only a very small part of the whole task. State and local governments, employers, voluntary groups and private citizens all have a hand in determining the level of educational and occupational opportunities available in their localities. Adequate schools in most communities are tied to the willingness of individual citizens to tax themselves. Whether or not the "ineffective" can find work depends directly on the hiring practices of individual employers.

Above all, a successful attack on the causes of human failure requires the ability to think in terms of conserving our human resources. It is always cheaper in the long run to rehabilitate the handicapped than it is to support them from public funds. It is cheaper still to prevent ills than to cure them.

In a democratic society, people are the ends as well as the means. The broadening of every man's opportunity to develop his abilities and make the most of his life should be–and still is–the highest goal a democracy can enjoy. ■

Resource in the Sky

FRESH WATER is our primary self-renewing resource. The total quantity in constant circulation, measured by the average annual precipitation over the United States in the form of rain and snow, amounts to about 4.4 trillion gallons daily. About 3 trillion gallons return to the atmosphere through evaporation and transpiration, and the rest runs off to the sea. The U.S. uses about 170 billion gallons of fresh water daily for domestic, industrial and irrigation purposes–four times as much as was used 50 years ago.

French commitment to the European Common Market involves a willingness to inaugurate sweeping economic reforms

France Makes Her Choice

by Paul Alpert

■ FRANCE MADE a very difficult decision when she agreed to the gradual merger of her economy with that of her partners in the European Economic Community. Her action meant a complete break with the tradition of protectionism which until World War II had preserved a balance between her industry and agriculture–at the cost of technical inefficiency in both.

During the postwar period large-scale investments had helped to expand and modernize the French economy somewhat. Besides perfumes and women's fashions, French small automobiles and, more recently, jet planes and calculating machines became important exports. But inflationary pressures in the form of very liberal social legislation and an overcrowded and inefficient retail trade kept costs and prices substantially above the world level. As a result, French imports still had to be restricted by high duties and quotas, and French exports still required government subsidies.

Naturally, many observers doubted whether the French economy could adjust to competition within the Common Market and benefit from this association. The beneficiaries of protection, of course, raised stubborn cries against France's participation. But even those who were convinced that the French economy had to be modernized had trouble deciding about the Common Market. Pierre Mendès-France, for example, de-

clared that France first had to put her own house in order. How else could she face foreign, particularly German, competition on equal terms? Jean Monnet, on the other hand, thought that resistance to change was so strong in France that only the absolute necessity of having to become a competitive member of the Common Market could induce the French Assembly to pass the needed reforms.

As it turned out, Monnet's view proved correct. Since France's agreement was essential for implementation of the Common Market, her negotiators found that they were able to drive a hard bargain. France came away from the Rome Conference (which brought the European Economic Community into being) with some important concessions: escape clauses that could be used if she ran into difficulty with her balance of payments; agreements by the other members to join in grant investments in France's overseas territories; pledges to give preferential treatment to products from her territories; and promises that similar social benefits to those enjoyed by French workers would eventually be instituted in the other countries of the EEC. These terms helped the Mollet and Bourgès-Maunoury governments to get the Rome Treaty ratified by a great majority in the National Assembly.

Just what benefits did France hope to gain from the Common Market? For one thing, it was hoped that increased competition would force backward industries to modernize without undue hardship. Implementation of the Rome Treaty would take 12 to 15 years, and the interim period would allow France to adjust without serious dislocations.

Enterprises that could not modernize, either because their markets were declining or because they had inherent inefficiencies–poor access to energy or to raw materials–would have to be reconverted. Here, subsidies from EEC's European Social Fund would help to retrain and relocate labor; loans from EEC's European Investment Bank would help to finance industrial reconversion; and tax exemptions and subsidies from the French government itself would ease the adjustment in general. If the "cure by competition" became too disruptive, moreover, France always had access to the escape clauses. She could suspend her efforts at trade liberalization whenever she felt the going too tough, and she could always pull back behind a screen of minimum import prices to protect her agriculture.

There were more specific reasons for French optimism about the EEC. Of all the countries in the Common Market, France enjoys the best natural conditions for a considerable expansion of her ag-

ricultural production, particularly in those commodities that will be most in demand as Europe's living standards improve–meat, dairy products, and fruits and vegetables. Her wheat and feedstuffs can already be profitably sold at below the prevailing domestic prices of the other EEC countries, although they cannot compete outside the Common Market.

Overburdened budget

The association of the Overseas Territories with the European Economic Community also promises to relieve the French treasury of some of the costs of developing her African territories. The EEC has already set aside $580 million in its Overseas Territories Investment Fund to be used for this purpose during the next five years. Such contributions will relieve the government from the necessity of further increases in France's already overburdened budget.

In fact, the whole structure of the Territorial economy is expected to change. Growing up under the shelter of French protectionism, the Territories have always enjoyed preferential treatment for their exports in the French market. Products from other countries were kept from competing by high tariffs, quotas and exchange restrictions. In return, the Territories bought industrial imports from protected French producers.

The result, of course, was to build the franc area into a high cost zone. Territorial exports to other countries had to be subsidized by direct government payments. Eventually, some of the exports from the Territories, notably coffee, cocoa and bananas, began to exceed the absorptive capacity of the French market. The vicious circle of protection had to be broken somehow, but the political influence of the Territorial producers was too great.

The EEC offered a way out. With the Territories a part of the Common Market, the markets for their products would be greatly expanded. Moreover, their exports would still receive preferential treatment, but the degree of protection they had grown accustomed to would gradually be decreased. At the same time, they would be able to import industrial products not only from France but from any of the countries in the Community.

Turn for the worse

The French, then, had good reason to look forward to the beginning of 1958, when the Common Market became a reality. But only a few months later, France's balance-of-payments situation had taken a turn for the worse. She responded by imposing new restrictions on her imports. Her new partners began to fear that she would be neither able nor willing

to reduce trade barriers according to the schedule adopted at Rome.

Their apprehensions were strengthened by the fact that the National Assembly had not yet received a program to prepare the French economy for membership in the Common Market. Moreover, General de Gaulle, who had just come to power, was known to oppose supranational European organizations. The fear that his government would refuse to implement the Rome Treaty grew.

Emergency reforms

But De Gaulle received six months of emergency powers, and he moved quickly and decisively. The financial and monetary reforms he inaugurated in December, 1958 came just in time. They cleared the way for France to accept the initial measures of implementation of the Common Market. Duties were reduced by 10 per cent, quotas were increased by 10 per cent and a minimum quota of three per cent of national output for each EEC country was accepted as scheduled on January 1, 1959.

De Gaulle's economic reforms, drafted by the veteran liberal financial expert, Jacques Rueff, and introduced by finance minister Antoine Pinay, were based on the same assumption that had led France into the Common Market: inefficiency and high domestic prices could be reduced by greater competition. The franc was devalued to make French prices for most export products competitive. Government subsidies were discontinued. As a result, French prices for most export products began to fall–in some cases, for example, steel prices, significantly *below* the world level.

But there was the danger that domestic producers would see fit to raise their prices to the full extent of the devaluation, especially since they no longer enjoyed government subsidies. Although the recession tended to discourage this, other steps were taken to insure that prices would not go up. The De Gaulle government liberalized restrictions on imports and canceled all controls over wages and agricultural prices. The move worked so well that the government today seems determined to use liberalization of imports as a tool against rises in domestic prices. Abolition of the remaining agricultural quotas is now being considered in order to counteract what appears to be a speculative rise in some domestic food prices.

Favorable balance

The Rueff-Pinay reforms also had beneficial effects on foreign trade and balance of payments. Prices rose by only four per cent (far less than expected) and, as a result, exports increased substan-

tially. For the first time in many years, France's balance of trade with foreign countries became favorable in May and June, 1959.

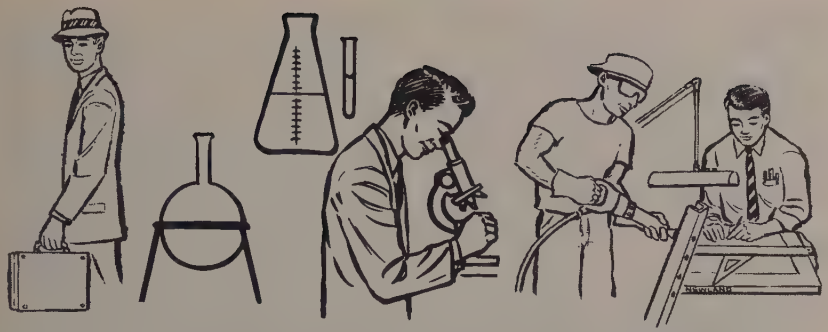
The government extended its program by granting tax exemptions to small- and medium-size enterprises which agreed to establish common facilities for research, the developing of foreign markets, etc. Although this was the only important move *directly* aimed at adjusting the French economy to the Common Market, the psychological impact of French participation in the Common Market on French business was strong and stimulating.

Rush to survive

Participation in the Common Market has thus already become an important fact of French economic life and a major factor in its expected modernization and expansion. Nearly all industrial enterprises have started to move toward modernization and reconversion. Even traditional family undertakings, which up to now resisted all change, rushed to catch up in order to survive. In agriculture an agreement has already been made for the export to Germany of a substantial share of the French wheat surplus. Public investment in the Overseas Territories by the European Fund has already started. For one thing, it will cover all the costs of rehabilitation from the heavy damage caused to the road system in Madagascar by the recent disastrous hurricane.

The policy of the present French government seems guided by the conviction that greater freedom in international trade offers the best way to reach the goals it wants: monetary stability, balance of payments equilibrium and economic expansion.

However, the need for continued protection of important sectors of the French economy is still great. Whether France will continue her new policy of freer international trade depends, in the final analysis, on whether such a policy will continue to offer her the best prospects for modernization and expansion. The present government seems to think it will, and the majority of French businessmen and citizens are beginning to agree. On the whole, the prospects for economic expansion appear good. There will be an increase in the work force after 1962. New natural resources are being developed in France and in the other areas of the French community. Finally, there is a new dynamism in the French economy, in part as a result of the stimulating effect of the Common Market. What remains to be seen is whether the burden of France's heavy financial commitments, particularly in her overseas territories, will permit the maintenance of competitive price levels. ■



THE FUTURE JOB MARKET

A U.S. Department of Labor official analyzes our changing needs and who will be most in demand for what

by Seymour L. Wolfbein

■ THOSE OF US who will be looking for new jobs in the next few years should know about some important changes that are taking place in the economy. Recently, the government released its projections on employment for the next 10 years. They show that we can expect the following trends to intensify:

- A long-term move toward more and more service-producing industries and more and more white-collar jobs.
- A substantial growth in the number of new jobseekers coming into the labor market.
- An important increase in the educational and training requirements for jobs.

Let's look at these three changes and see how they will affect each of us during the 1960s.

We have already reached the point where there are more people producing services than goods in our economy, and the latest word from the government is that this trend may even accelerate. The number of job openings in the fast-growing service industries–finance, insurance, trade, government, etc. –will probably keep rising at a faster pace than the national average.

The goods-producing industries will also continue to employ more workers, but here the increase in job openings will be slower. Automation, mechanization, new production techniques–all these have so boosted productivity that fewer

and fewer workers will be needed to produce more and more goods. Employment in transportation and public utilities should rise by less than the national average. The same will be true of manufacturing, the biggest job field of all.

Mass exodus

Meanwhile, increasing productivity will continue to take its toll on the farms. More machines on larger farms have already cut farm employment by more than five million since 1940. Government projections look for another million workers to leave the farms during the next 10 years, while those who remain will be able to produce more food and livestock than ever before.

In terms of occupations, the while-collar fields will lead the job parade in the 1960s. Right now, 41 per cent of all the jobs in America are white-collar positions. By 1970, the number should rise to 45 per cent of a much larger job market. The blue-collar workers, who now hold 37 per cent of the jobs, will drop a bit to the 36 per cent mark.

The new white-collar jobs won't necessarily be confined only to service industries. Manufacturing itself will need more clerks, managers and professional people as the years go by. Back in 1948 there were only 2.6 million white-collar workers in manufacturing as compared with 12.7 million blue-collar workers. Ten years later, with employment down as a whole in manufacturing because of the recession, blue-collar jobs fell to a million below their 1948 mark. But about a million and a quarter new white-collar workers were added to the payrolls over the same 10-year period. Blue-collar employment had fallen from 83 to 75 per cent of the total manufacturing labor force.

Which specific kinds of jobs will grow most within the next 10 years? Engineers, scientists and those in related technical fields will find jobs opening at the fastest rate. Twenty years ago, only one scientific or technical worker was employed for every 100 people in the labor force. Today, there is one for every 32 workers. Government projections say this trend will continue through the 1960s.

Technicians, those who work with and give technical support to the engineers and scientists, will also be very much in demand. In fact, the National Science Foundation reports that 600,000 more technical workers were hired by manufacturers alone between 1954 and 1957–a 25 per cent increase in technical help in only three years.

Outside the laboratory, clerks and salespeople have comprised the fastest growing occupational class since the war. They, too, can expect to enjoy more job opportunities. Clerical and sales openings should increase at a faster than

average pace during the next 10 years.

As for blue-collar fields, the Sixties will bring an enormous decline in job openings for the unskilled and a smaller-than-average growth for the semiskilled. But skilled craftsmen will still be greatly needed. In fact, openings for skilled craftsmen in the next 10 years will grow at a faster rate than the over-all labor force. The U.S. Bureau of Apprenticeship and Training reports that the number of new craftsmen who have come into construction, for example, in the last eight years is not even enough to replace the number of journeymen who have left their jobs because of retirement or death.

As the demands for labor change within the next 10 years, another important shift will be taking place in the labor supply. By 1970, 13.5 million more people will have become part of the labor force, bringing the total up to about 87 million workers.

Breakdown by ages

Where will this increase come from? Forty-seven per cent of the new workers–almost one out of every two–will be youngsters between 14 and 24, many of them looking for their first job. Another 41 per cent–two out of five–will be at the other end of the age scale, 45 years and over.

The 25-34 age group will hold another 13 per cent of the increase. And, most significantly, there will be an *actual* decline of one per cent in the number of workers in the prime age group of 35-44–a result of the low birth rate that followed the depression of the 1930s.

In the face of an upsurge in jobs requiring higher education, training and skill development, the greatest increase in our labor supply will be among relatively inexperienced youngsters who are just beginning their careers. At the 35-44 age group, where most of our professional, managerial and highly skilled personnel are to be found, there will be an actual deficit of experienced workers.

Thus, the very low birth rates of the Thirties and the enormous upturn in births throughout the Forties give us a unique kind of problem today: Where will we find job opportunities for a large number of young, inexperienced workers while we search for trained and experienced people to fill more and more professional, technical and skilled jobs?

Educational attainment will be an increasingly valuable asset in the years to come. Between 1947 and 1957, professional and technical workers, who enjoyed a 57 per cent increase in employment opportunities, spent an average of more than 16 years in school–a little more than a college education. Dur-

ing the same period, clerical workers with a median educational attainment of 12.5 years found about 33 per cent more jobs available to them. Jobs for skilled workers, who averaged only 10.5 years of schooling, went up by only 8.8 per cent. And, of course, in such fields as unskilled labor, where educational attainment was even less, employment growth was less, too.

The jobs that require higher education represent the real growth areas of the future. Yet even here the educational requirements continue to go up. More time is now needed for an engineering degree; the four-year program for a baccalaureate degree in pharmacy or architecture has been lengthened to five years; more schools are now demanding master's degrees from their teachers; more employers want more than high school degrees from secretaries and clerks.

As a result, the next decade should see some important changes in education. Back in 1940, only 26 per cent of those over 15 years of age were high school graduates. The Census Bureau projects a figure of 45 per cent for the end of the next decade. Twenty years ago, there were only 3.8 million college graduates. The projections say that this figure will triple by 1970.

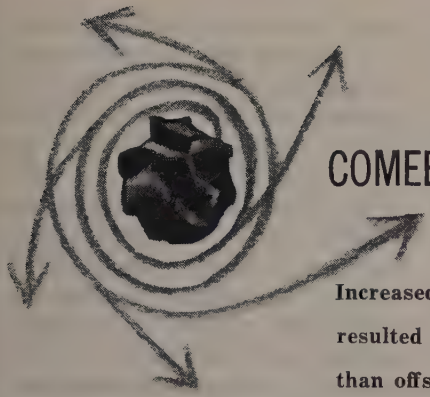
However, expanded and improved educational facilities won't solve all our future manpower problems. The youngsters who will be looking for jobs must have informed counseling and guidance in their career planning by parents, schools and other community agencies. The testing, counseling and placement services of local public employment offices, the information available from the U.S. Department of Labor, the U.S. Office of Education and from many private organizations are important resources in this field.

Employers themselves will also have to do some very careful manpower planning. The kind of looking ahead that has been done here for the U.S. as a whole can certainly be done for government, business and industrial organizations.

Careful and creative manpower planning goes hand in hand with our growing emphasis on education and skills. If we call upon the individual for a maximum effort to develop himself, we should follow up with a maximum effort in planning to use the skills he develops. ■

Another Farm Surplus

IN THE UNITED STATES, the farm loss from weeds is estimated at about $5 billion a year, which is many times the loss from all animal diseases and more than that from destruction caused by insect and plant diseases.



COMEBACK FOR COAL?

Increased efficiencies in production have resulted in new markets which may more than offset the loss of traditional ones

by Nathan Belfer

■ WHEN IS a dying industry really dead? Even economists are not above attending premature wakes, preoccupied as they often are with current performance. But new markets can be developed and efficiency can be increased by making the "old" product again competitive with "new" commodities which were displacing it. In this way, dying industries can be "miraculously" revived.

The coal industry, which has seemed to be dying for the last 15 years, is a case in point. Statistics on current production are certainly not encouraging, Anthracite (hard coal) production has declined from 55 million tons in 1945 to 22 million tons in 1958. Consumption of bituminous (soft coal) has declined from 560 million tons to 365 million tons during the last 14 years. These figures are certainly nothing to cheer about. But the over-all statistics obscure a dramatic change in the domestic coal market —a change which holds forth the hope of substantial growth for the coal industry in the years ahead.

While traditional markets for coal have virtually reached bottom, a new market, electrical utilities, is opening up for soft coal. Between 1945 and 1958, railroad consumption declined from 125 million tons annually to less than four million tons. Fuel deliveries also suffered a major decline–from 119 million to 34 million tons. Coke oven and steel mill consumption increased somewhat between 1945 and 1957, but declined in 1958 reflecting lower levels of steel production in that year. Other industrial uses also decreased. What is significant, however, is that consumption of bituminous coal by electric utilities

rose by 112 per cent, from 72 million tons to 153 million tons–most of the increase taking place in the last few years. Today, electric utility companies account for about half of total coal consumption.

The growing fuel requirements of electric utilities is the factor which will transform the bituminous coal industry from a declining industry into one with encouraging growth prospects. This optimism does not apply to the anthracite section of the coal industry, which, however, accounts for only about five per cent of total coal output. Here the outlook is bleak. The major market for hard coal is for space heating, and further losses in this market are likely. Mechanization of anthracite mines, moreover, is difficult.

Can meet demand

The mines certainly can service the expected increase in demand. United Mine Workers President John L. Lewis has succeeded in almost doubling the daily wage rate of miners from $13.05 to $24.25 between 1947 and 1958. He has also encouraged mechanization of the mines. Output per man rose from 5.78 tons to 11.32 tons during the same period. Some mine operations are almost completely mechanized today. In 1930 only 10 per cent of coal was loaded by machine; today 85 per cent is mechanically loaded. As a result, the price of coal is now competitive with oil and natural gas. During the last five years coal prices have remained almost stationary while oil has risen about 13 per cent and natural gas 24 per cent.

The biggest expansion in demand for coal will be from utilities –especially electric utilities which are the most rapidly growing market for soft coal. In 1958, electric utilities used 153 million tons, or about 42 per cent of domestic use. The nation's appetite for electricity appears to be insatiable. Demand for electric power is expected to double in the next 10 years. The Federal Power Commission has estimated that electric power demand will rise from the 645 billion kilowatt hours used in 1958 to about 1.6 trillion in 1975. Others believe it will grow to more than two trillion kilowatt hours.

It can confidently be expected that coal will be the fuel used to generate the bulk of this increased electricity. Although the quantity of electricity generated by water power has risen steadily for many years, few major hydroelectric power sources are presently available. Significantly, the nation's largest utility coal consumer, the Tennessee Valley Authority, now uses steam plants to generate almost 75 per cent of its electricity output. All future TVA expansion will be steam powered.

Coal's competitive position as a

boiler fuel compares quite favorably with oil and gas. In 1949 steam boilers used 1.24 pounds of coal to generate one kilowatt hour of electricity; in 1958 only 0.91 pounds of coal was required. In 1952 electric utilities could use $1 to buy 3.7 million B.T.U.s (British thermal units, the standard measure of heat energy) in coal, 6.6 million B.T.U.s in gas and 3.0 million B.T.U.s in oil. In 1956 coal had increased to 3.8 million B.T.U.s while gas and oil declined to 5.3 and 2.6 million B.T.U.s respectively. At the same time, natural gas prices have been rising rapidly. Some experts believe that within the next decade gas will price itself out of the boiler fuel market except for areas in the South and Southwest. Coal has been increasing its share of fossil-fuel-generated electricity and now accounts for over two-thirds of such production. Continued increases in mine productivity and improved efficiency in steam boilers should enable coal to become the lowest cost fuel in many areas of the country.

Long-run threat?

Atomic energy has been considered as a means of generating electric power. In the long run, it may pose a threat to coal. But early optimism concerning atomic power has been tempered by the high capital and fuel costs of such plants. It is now believed that nuclear power will not be cost competitive with coal until the 1970s. Until then, its use will be to supplement rather than to displace power generated by conventional methods. The FPC estimates that installed generating capacity will have to be increased from 160 to 355 kilowatts by 1975. Only a few million kilowatts of this will be nuclear powered. Interestingly enough, the Atomic Energy Commission is today the largest consumer of electricity generated from coal.

All this indicates a most favorable outlook for utility consumption of coal. By 1975 the use of coal to generate electric power could double from the 1958 figure of 153 million tons to a level of over 300 million tons. The strength of bituminous coal company stock prices reflects investor confidence in the industry's outlook.

Coal for steel

The steel industry's demand for coking coal is also expected to increase somewhat in the future. At present, the industry is the nation's second largest consumer of coal, using 83 million tons in 1958. The production of one ton of steel requires the use of about nine-tenths of a ton of coal. Although steel consumption of coal has increased relatively less than steel output (largely because of improvements in blast furnace efficiency), the steel industry has plans for fur-

ther expansion in capacity, which would result in somewhat bigger demands for coal.

Other industrial markets for coal should also increase. In 1958, industrial consumption of coal, exclusive of coke and steel mills, amounted to 91 million tons, or 25 per cent of the total. The aluminum industry, for example, has traditionally used hydroelectric power. But the availability of cheap bituminous coal in the Ohio River Valley and the lack of major unexploited hydroelectric facilities has led the aluminum companies to construct new plants in Ohio and West Virginia. It is estimated that when the aluminum industry's current expansion program is completed coal will provide the electric power for over 20 per cent of U.S. aluminum smelting capacity. Cement mills used eight million tons of coal in 1958, double the 1945 consumption. Research is being carried on in coal hydrogenation. It is already technically possible to convert coal into gas underground, but this process is still much more expensive than natural gas.

Another interesting possible market for coal is in road building. A new blacktop road paving material has been made from coal and other raw materials. Preliminary

Coal Was Once a Novelty

THE EARLIEST known mention of coal was recorded in the 4th century B.C. by the Greek philosopher, Theophrastus. In his *Treatise on Stones*, Theophrastus, a pupil of Aristotle, described black fossil substances which were used as fuel by the smiths of Liguria. However, archaeologists have discovered that during the Bronze Age, more than 3,000 years ago, coal was used for funeral pyres by peoples living in what is now Glamorganshire, Wales. Remains of coal fires have been found in Roman dwellings and military camps, dating from A.D. 121.

In the 13th century, barges loaded with coal traveled down the English coast to London. At that time little was known about proper burning of coal, and Englishmen soon expressed the opinion that the fumes given off by a smoking coal fire were poisonous. King Edward I felt that the new fuel was so dangerous that he imposed the death penalty upon any person caught using coal as a fuel. Even after the penalty was lifted the popular prejudice lingered on through the reign of Elizabeth I. In those early days only the very rich could afford to burn coal because only hearths and chimneys made of iron (which was expensive at that time) were safe for burning coal. Toward the end of the 15th century fire bricks were discovered, and since they could be made cheaply in coal furnaces, a safe hearth and chimney was within the means of nearly everyone.

tests indicate that roads built with this new product have four times the life of present asphalt surfaces. About 2,000 tons of coal is required to build a mile of highway with this new substance. If successful, this new use for coal could increase coal demand by several million tons annually.

In those industrial markets which the coal industry seems to have lost, moreover, the decline in demand seems to have gone about as far as it can go. As a result of the large-scale conversion to diesel engine locomotives, for example, consumption of coal by the railroads has declined steadily to a low of 3.7 million tons in 1958. But the loss of this market, however, is a thing of the past. Recent research on the development of a coal-fired gas turbine may even, if successful, result in some increase in railroad consumption of coal.

Bright production outlook

Retail use of coal has also declined steadily–to only 34 million tons in 1958. Oil and gas have displaced coal in this market. This loss is probably permanent. However, it does not appear that retail demand for coal will go very much lower, for coal is cheaper than oil or gas. There will always be some consumers who favor the lower cost of coal for home heating in spite of the greater convenience of oil and gas.

The production outlook for the coal industry is thus bright. But one cannot be as sanguine about employment prospects. In 1947 bituminous mines employed an average of 419,000 workers per day. By 1958 the figure had fallen to 188,000–a result of higher productivity and lower production. John L. Lewis will undoubtedly continue to press for higher wages. And since labor accounts for 91 per cent of the industry's over-all production costs, increased wage rates are a powerful incentive for investing in loading machines, conveyors, power cutters, drills and continuous milling machines. Employment will thus depend on the relationship of productivity and production.

Increased mechanization will also tend to concentrate production in the larger mines which can make use of large and expensive pieces of equipment. Thus, smaller mines which have been hard-hit in recent years may not benefit as much from a future revitalized coal industry.

All in all, bituminous coal is an interesting example of an old industry which has reversed its declining trend. Increased efficiency has resulted in the development of new markets which may eventually result in greater demand than that from traditional markets which have been lost. Here is one old industry which is neither going to die nor fade away. ■

Bradley Fisk

Deputy Assistant Secretary for International Affairs, U.S. Department of Commerce

U.S. Goals in World Trade

Q *Mr. Fisk, in our recent telephone conversation you pointed out that the word foreign came before the word domestic in describing the responsibilities of the U.S. Department of Commerce. Would you want to expand on that, please?*

A By law, the principal functions of the Department are to foster, promote and develop foreign and domestic commerce among the manufacturing and transportation industries, including the merchant marine, of the United States. And foreign, as I said, comes first in the wording. That doesn't mean that we in the Department are negligent on the domestic side, but my particular job under the Assistant Secretary for International Affairs concentrates on foreign trade patterns.

Q *We heard a great deal about trade fairs this summer. These trade fairs are supposed to encourage Americans to do business in other countries, as well as the other way around, are they not?*

A Oh yes, I think that is a very important part of the project. We try very hard to encourage American manufacturers to exhibit at these foreign fairs, and to do business on that basis. It was part of the President's idea, when he set up the trade fair program, that our participation in trade fairs as a government would act as seed money to get American firms to participate in the fairs on their own.

Q *Would you say that the cold war has made trade fairs as much a propaganda organ as a trade-stimulating forum?*

A They have become something of a propaganda organ in that we put them in more critical areas. We have been in fairs in Poznan, Poland, as you know, for three years in a row. We have had fairs in Yugoslavia and, of course, the recent U.S. Exhibition in Moscow, which was a joint operation of the State Department and the United States Information Agency, with Department of Commerce assistance. We do feel that it is important from the propaganda aspect to take part in these fairs. We also, however, are trying to do it on a basis where we are commercial and not only ideological.

Q *Well, what about the goods actually exhibited at these fairs? You mentioned Poznan. I suppose the Singer people or somebody like them had a sewing machine on display. How many such machines were sold?*

A You must have been at the Poznan Fair. At that fair last year there was a production line where they took cotton, wove it into cloth, dyed the cloth, turned it into blue jean material and turned it over to the Singer Sewing Machine people, who turned out blue jeans at a prodigious daily rate. These blue jeans were later distributed in Poland. I think that even if we didn't sell any sewing machines in Poland, it was a good thing to give jeans, so popular with American teenagers, to some Polish teenagers.

Q *But what is the commercial value of such displays?*

A I think that what it does is to show people who can't buy these things today what may be available to them tomorrow. And I am sure that it gives them an idea of what can happen to them with eventual industrialization of their countries and the expansion of their own ability to make the things that have been very important in America's progress. And it helps to secure our place as the leading exponent of a free enterprise economy.

Q *Well, how about the less-sensitive areas? We're still in business there also, aren't we?*

A The less-sensitive areas, interestingly enough, provide quite a problem for us because—well, I don't think I can get through this

without talking about the budget. Spain, for instance, may resent it very much if we don't go into her fair at Barcelona every year. We've been at the other fairs, of course–Milan, Paris, Stockholm, Hanover–many of the friendly places of Europe and other continents. There is no question that it does America good to be in those fairs. But our tendency in the last few years, because of the restricted funds at our disposal, has been to pull out of some of those fairs and use more of our funds to go into more sensitive spots. Our feeling on that is that we have shown the way to American industrialists–taken them into these fairs, given them the exhibits, and we hope they got sufficient results so that they are willing to enter future fairs on their own.

The role of GATT as a stimulant to world trade

Q *Do you believe that GATT (General Agreement on Tariffs and Trade) has been a factor in helping to stimulate world trade growth?*

A Sure it has. Originally the U.S. used to sit down with one country at a time and talk about reducing tariffs so that we could do more business with each other. But we might just as well talk in a group and work it out with many countries at a time. And, certainly, if you look at the figures, foreign trade for all countries has increased many times over during the years since the last war. I am sure that GATT had a good deal to do with easing the progress of that trade. It wasn't the only thing by any means, but it certainly had a lot to do with it.

Q *Are you more concerned about the so-called weakness of our competitive position in export markets? It has been said that we are losing some of our traditionally strongest markets.*

A I don't think that's said the right way. I am not sure that we have a traditional position to protect. I think that during and at the end of the war, other countries, in effect, gave us markets by default. Because of the wartime destruction and dislocations, they weren't in a position to supply their normal customers, so we stepped into the breach. We built up a peak export position which has been very hard for us to sustain with the European and other industrial countries coming back into production. As an old department store man whose sole job was to beat yesterday's figures, I can understand how some of our manufac-

turers feel when they see their business dropping off. Yet, before the war we certainly didn't monopolize trade. Now we're back to facing competition. I know that price is only part of the answer, but I think there are many other things that go into it. We may have designed ourselves out of some markets just as much as we may have priced ourselves out of them. By that I mean that our large automobiles, for example, haven't been compatible with the needs of some other countries. Also, if somebody in India wants an icebox, and he never had one before, he doesn't need revolving shelves and a self-dumping icecube device and an electric light inside of it for $300. What he wants is a box that sells for $49.50 to keep things cold. And I'm afraid we haven't been providing these things.

Q *You spoke about the revival of Europe as naturally cutting into some of our trade. How far can this go before it hurts?*

A Well, if we want Europeans to support themselves, they are going to do it in a world which has limits. There are only so many customers in it. We must start competing. I think Charles Percy of Bell and Howell is the leading exponent of this. He makes some of the most sensitive things in the world. He makes cameras, lenses, and so on. He has the Germans on one side of him and the Japanese on the other side. The Japanese pay their workers 50 cents an hour and he pays his $3.25, or more. But he is one of the biggest boosters of foreign trade in the country. He says it is our job to keep ahead of the competition by bringing out things they haven't got around to.

Q *Would you say this is a practical answer to the critics of GATT?*

A The critics of GATT hit us mostly on the reduction of tariffs. And our answer to that is that we have a very, very careful system set up to protect domestic manufacturers against undue harm through tariff reduction. The Tariff Commission will give a most intensive and fair analysis to any industry that wants to know whether foreign trade really is hurting it. There have been 70 or 80 such investigations started; most of them have been completed; in some cases, tariff on the item has been adjusted upward. In general, the items involved are not especially significant to the national economy. They are things like spring clothespins from Scandinavia. On the one hand, a little town in

Vermont, where spring clothespins are made, is going to suffer a great deal if that is the only factory in town. We have to worry about it. On the other hand, if we put the tariff so high that no clothespins can come in, Scandinavia is going to worry, because that is one of the important items they export to us. That is why this job is fun, because we are never fully right–we can never please everybody–we're always damned, often by both sides.

Q *Well, now, it has often been said that with the movement toward the establishment of a six-nation Common Market and a so-called "Outer Seven" trading group in Europe, similar movements in Central and South America may take place. Would you say that this is of any interest to the United States?*

A We are supporting it. I think that the more these countries get together to discuss and solve their problems of tariffs, discrimination and quotas, that more logical conclusions result, and the more likely we are to be able to trade more easily.

Mutual concern for good trading connections

Q *Is there any feeling that combinations like the Outer Seven or the Common Market, which consists of six nations, are squeezing the U.S. out of the world trade picture?*

A I don't think so. I really don't. I can't prove that they won't or that they don't want to. But the presidents of three European communities were here not too long ago–the president of the coal community, the president of the Common Market and the president of Euratom–and those three men were just as worried about our reaction to what they are doing as our people are worried about what they are doing. I was present while they talked with our Secretary and others from our Department, and I would say that their concern was as great as ours, if not greater, that good trading connections between their edifice and our own country remain intact.

Q *Are you looking forward to the eventual development, at least in the West, of areas of specialization due to the enlargement of these cooperative movements?*

A A good many years ago I was at Harvard University's commence-

ment exercises in Cambridge, Massachusetts. I was sitting on the platform because I was a director of the Harvard Alumni Association. The head of the Divinity School of the University of Chicago made quite a speech about how each university should not try to cover all fields of knowledge. The intelligent thing to do was for Harvard to let Amherst be the best in astronomy, for instance, and be satisfied to be the best in law and medicine, and let another college take care of geography, and let others excel in other subjects. I thought that was the best speech made that day. As a matter of fact, General Marshall also introduced the Marshall Plan from that platform the same day. It didn't impress me nearly as much as the Chicago man's speech. I was just a department store character at the time, so perhaps I didn't have international insights. But I thought this idea of one university not trying to do everything was a pretty intelligent and a very good idea from the economics standpoint. This is completely my own thought about countries. I think that if we can't supply reinforcing rods, for instance, at a price that can be used in our country, and Japan can supply them, well, maybe we had better meet the competition with a superior product. I think that if an electric generator is made in Canada that is equivalent in efficiency and everything else to what can be made in the U.S., and the Tennessee Valley Authority (TVA) wants to buy it for several million dollars less, I don't see any reason why TVA shouldn't buy it from Canada. If you want to buy the thing from Europe, where in case a war comes, you have the problem of getting replacements from across the ocean, I'm not sure I would want to buy it from Europe. But under normal circumstances I certainly have no objection to buying it from another country if it's as good a product, if they have learned the old American trick of getting their costs lower. I think that in order to continue to be exporters, we can't always be selling the same old things to the same old people. We must also sell new things to new markets. That is one of the things we are trying to do here–to convince the complainers that, while we sympathize with them, we can give them more help if they will figure a new approach, a new item, a new need to fill in the other country, than if they come to the government and say: "Fix it so we can continue doing it the old way."

Q *Thank you, Mr. Fisk.* ■

by Calvin B. Hoover

The West German experiment with getting the government out of business may be setting a new pattern

■ IN A MOVE that has aroused great interest in other Western European countries, the West German government this year began to sell off industries which it had inherited after World War II. In April, the government sold a large part of its holdings in Preussag, an industrial combine engaged in oil refining and coal mining with a yearly turnover of some $180 million. The Bonn regime also plans to sell its interest in Viag, a heavy industry combine, in Volkswagen automobiles and other enterprises in the near future.

What is unique about the West German program is not its repudiation of socialization but its conscious aim of creating (not restoring) a competitive free market economy. It is this aspect of the West German experiment that intrigues the statesmen of other Western European countries.

By itself, the West German move toward denationalization would not have aroused much interest. The trend toward socialization of large-scale industries, which characterized almost all the countries of Western Europe during the old early postwar years, was already beginning to be reversed before the current West German program had got underway. In Great Britain, the Conservative victory at the polls led to the denationalization of the steel industry. In France, no further steps toward nationalization have been taken. And the Swedish government's purchase of the remaining private interests in the big Lapland iron company, Luossavaara-Kiirunavaara A.B., in 1956 was a special case and not a

planned step toward further socialization. At that, state-owned enterprises still account for only seven per cent of Sweden's labor force in industry, mining and construction.

Governments which have acquired industrial assets for reasons other than ideology have also begun to get rid of them. In 1957, the Austrian government sold its controlling interest in two banks, and the Netherlands government got rid of some of its shares in KLM Royal Dutch Airlines. As for the U.S. government's disposal of industrial plants during the postwar period, this served merely to reaffirm our opposition to government ownership of industry. In disposing of its synthetic rubber plants, our government actively sought to maintain competition and to prevent further concentration in the synthetic rubber industry.

Only the West German government has sought to use its sale of government property as a means of broadening stock ownership and democratizing capitalism in general. In selling Preussag, for example, the government deliberately provided its lower-income citizens with a bargain investment. Only persons with incomes of less than $3,810 per year could subscribe and no individual could buy more than five shares (reduced to four shares when additional issues were offered later in the year). Employees of Preussag were given first bids. Shares could not be resold until six months after purchase. Most important, the stocks were priced so low that buyers enjoyed an immediate capital gain of some 25 per cent. The public's response was enthusiastic. In fact, the sale of the first 300,000 shares was so successful that an additional 530 shares were offered for public sale.

In inaugurating the disposal of government-owned assets through the sale of shares in Preussag, Economics Minister Ludwig Erhard was not proposing a return to the past. Fully competitive free enterprise had never existed in Germany, which had been the land of cartellized industry long before Nazi days. Dr. Erhard's goal, therefore, is not to restore something that has never been. Rather, he is breaking new ground, along the lines suggested by an influential group of neoliberal German and Western economists who have idealized and publicized what they call the *Marktwirtschaft,* or free market economy.

These economists have not only repudiated the nationalization of industry but have vigorously opposed governmental controls and private monopolies of all kinds. This, of course, has always been the position of "liberal" or "classical" economists who advocate a free market economy, not only be-

cause it has produced the maximum wealth of nations, but because they believe that personal liberty has been least restricted when governmental intervention and control in an economic system have been kept to a minimum. With the Nazi experience so recently behind them, German economists are especially conscious of this connection between state control of industry and the repression of personal liberty. Competition, however, is an essential condition for the operation of a free market economy in the social interest. That is why Dr. Erhard has insisted that the government must introduce (and enforce) competition in the West German economy.

Vulnerable spot

But competition is not enough. The West German government's current denationalization program shows that Dr. Erhard recognizes what has always been a most vulnerable spot in the capitalistic free market economy. Even when the prices of products and the compensation of factors of production have been set competitively, the distribution of income under capitalism has always departed from the vaunted principle of "from each according to his ability, to each according to his productivity." Instead, the real distribution has been "from each according to his ability, to each according to his productivity *and the productivity of his property.*" So long as this remained true, a conflict between the interests of those who had only labor to sell and those who could sell the services of property was inherent in the capitalistic free market system.

The Preussag experiment, which will eventually be followed in other government-owned industries, thus reflects a deliberate effort to end this conflict of interest between labor and property. In this way, it is hoped, the free market system will be relieved of the burden of an unpopular system of income distribution which is not really essential to the functioning of a free market economy.

Greater equality in income distribution has, in fact, already diminished the conflict between the labor and property in Western economies. But this increase in income equality has primarily taken the form of the state withholding property income and using such income for the general welfare. As a result, those who received income almost solely from their labor were not fully aware of the change. A much wider ownership of the stock in industrial concerns by laborers, on the other hand, would substantially diminish the sense of conflict between labor and property. This will be especially true if such a program is combined with high wage policies and government tax

policies designed at the maximum feasible income redistribution.

Of course, it is by no means certain that the government will ever get rid of all its assets. If the Social Democrats should replace the Christian Democrats in power, or if Ludwig Erhard were to lose his political power in the Christian Democratic party, it is unlikely that the program would be completed. Even if the Christian Democrats retain power with Dr. Erhard in a position of influence, it is not certain that governmental participation in ownership and control of industrial corporations would come to an end.

Psychological effect

Nor is this all. Even if all the industrial assets now in the hands of the West German government were disposed of along the lines of the Preussag stock distribution, the actual results in terms of increasing the property incomes of German laborers would probably be small. But if the government's program leads to a similar program in the distribution of new stock issues by privately owned corporations, the psychological effect could be extremely significant politically. Whether the sale of common stock would be popular without such inducements as the 25 per cent capital gain involved in the sale of Preussag remains to be seen.

Interestingly enough, the West German government's program runs directly counter to a recent suggestion of the British Labour party. The suggestion is that the government should acquire shares in industrial corporations either in lieu of inheritance taxes or through outright purchase. The announced objective of this suggested program is *not* further nationalization, but greater participation by the state in capital gains. If carried out successfully, such a program might, paradoxically, have the same effect as the West German program in mitigating the conflict of interest between labor and property.

In one area, however, this wider distribution of shareholding among the West German public would not mean that individual free enterprise had been restored. The hundreds of thousands of small stockowners who now hold the stock of Preussag and the other hundreds of thousands who will probably soon hold the stock of Volkswagen and other companies will no more control the policies or operations of these companies than do the small stockholders of U.S. Steel, General Electric or other large corporations in the United States.

But the temporary pattern of control established in the Preussag experiment, with representation of the government, employees and stockholders, may set a new pattern of great significance not only for West Germany but for other

countries as well. Such tripartite control might help to solve the problem of managerial control of the board of directors–a problem which is once more becoming acute both in the United States and Great Britain. Managerial control means that management sets its own compensation, often at the expense of both stockholders and other taxpayers, since compensation can be set in such a way as to minimize income tax payments. Stock options, lifetime consultancies, liberal executive pensions and the like are today coming under the sort of attack which led to the setting up of the Securities and Exchange Commission in the United States in the 1930s.

If tripartite representation on the board of directors, along the lines of Preussag, should become a permanent pattern, something approaching joint control of industry by management, labor and government might develop through the *internal control* of corporate industry rather than through government legislation. Indeed, such a development might supplement the codetermination with labor which is already legally provided for in the coal, iron and steel industries of West Germany and which seems to be emerging in other Western European countries.

In any event, the West German experiment will be watched with interest by the entire free world. ■

Denationalization in America

THE SYNTHETIC RUBBER INDUSTRY in the U.S. is, to a large extent, the product of World War II shortages of natural rubber. In 1941, U.S. production, then in the hands of private industry, was a meager 8,000 long tons; but by 1944, govenment-owned plants (which cost nearly $700 million to build) had achieved a capacity of one million long tons annually. In the short span of three years the government had lifted synthetic rubber technology from the test-tube stage and transformed it into a full-blown industry. In 1953, an Act of Congress authorized the sale of government-owned synthetic rubber facilities to foster the development of a free, competitive industry. Congress required that no producer be given unreasonable control over the production of synthetic rubber or its components so that small business would be assured of a fair share of synthetic rubber at fair prices. A Disposal Commission, established to arrange the sale, was required to consult with the Attorney General on the development of free competition and to submit an annual report to Congress for the first 10 years following the sale. The 23 major government-owned plants were sold to 15 different companies. Since that time several new producers have entered the field–additional proof of free competition. In 1957, U.S. synthetic rubber production exceeded 1,118,000 long tons.

Challenge Profile

John L. Burns—of the New Management Breed

■ THE INCREASING complexity of the modern industrial corporation continues to bring to the fore men who have been advertised as belonging to a new breed of management. Such a man is John L. Burns, who at 48 became operating chief of the largest firm in the nation's fastest growing industry, electronics.

As President of the Radio Corporation of America for the past two and one-half years, Burns has played a key role in that company's bid to broaden its base of operations. RCA is still in the radio-TV business, but it has also been pushed decisively into such growth areas as missiles and satellites, automation, electronic data processing and atomic energy. The Burns formula also included an array of advanced management systems and methods, and a program of cost reduction and profit improvement that has boosted RCA's earnings by more than 40 per cent in the first half of 1959.

The no-moss-on-me outlook has developed a tightly organized team operation at RCA, which Burns believes is the only way to handle the complexity of problems that face a large corporation today. To make certain that RCA management is always pulling in the same direction—and to get the benefit of a constant flow of fresh ideas—he instituted regular weekly meetings of an Executive Council made up of top aides. Twice a year, a broader group forming the General Managers' Club gets together at a quiet meeting place in the country for a two-day skull session.

Speaking of his own beliefs about human psychology, Burns maintains that few of us ever make maximum use of our powers. "The urgent need," he says, "is

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

for a way not just to measure I.Q., but to increase A.Q., or 'accomplishment quotient.' " His own method of doing this, he explains, is through figuring out other people's motivations and meshing their personal goals with those of business management.

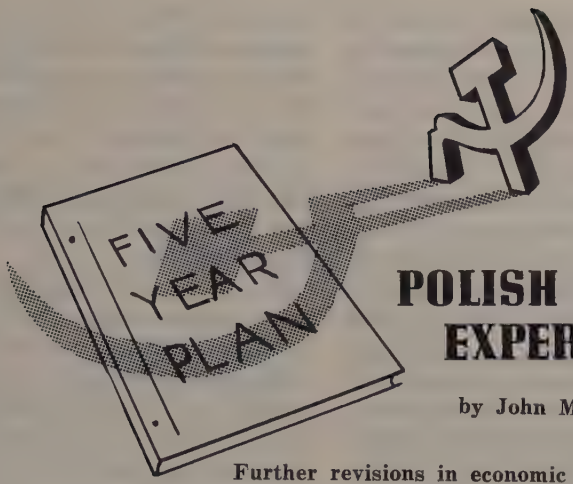
A typical Burns business day, therefore, is devoted largely to conferences and talks with RCA associates, beginning even before he reaches his office on the 53rd floor of 30 Rockefeller Plaza. On the way to work from his home in Greenwich, Conn., he usually arranges to pick up one or two associates for a chat en route. By the time he reaches Radio City, Burns' pockets have accumulated a collection of notes–some written on match books–which his secretary turns into memos to appropriate subordinates.

In business, Burns displays forthrightness, energy and enthusiasm reminiscent of a personal background distinguished by exceptional education, experience and achievement. Born in Watertown, Mass., he worked his way through Northeastern University, in Boston, graduating with a degree in electrical engineering. He continued on to Harvard, where he specialized in metallurgy, earning master's and doctor's degrees. He taught and ran the metallurgical laboratory at Harvard, and later taught the same subject briefly at Lehigh University.

Growing restless in academic confines, the 26-year-old professor of metallurgy decided he knew enough theory and wanted "to take a crack at actually doing the work." He resigned and became a day-laborer at the South Chicago mill of Republic Steel. Before fellow workers realized they had a doctor of science handling hot metal tongs, Republic's management recognized his special talents and moved him up gradually to the post of superintendent of Republic's wire division.

The next opportunity came in an offer from Booz, Allen and Hamilton, when Burns was 33. He left Republic to go into corporate management consulting. As a partner, he worked during the 15 years on studies and reorganization programs for 30 of the largest manufacturing and mercantile corporations in the country.

Burns was asked recently whether he found any major difference between his former job as management consultant and his present post as corporation president. "As a consultant I was in the position of recommending policies and procedures to someone else," he said. "Now I have to carry them out and make them work–and that's quite a difference, indeed." But the difference is academic, if the policies and procedures work. ■



POLISH GRAND EXPERIMENT

by John Michael Montias

Further revisions in economic policy–perhaps more deviations–will be necessary to escape stagnation

■ RUSSIAN AND WESTERN observers would agree on one thing about the Polish economy: it is run at low efficiency. But they would disagree as to why. The Soviet economists I talked to this summer argue that the lack of self-discipline among the Polish people and the haphazard reforms introduced since October, 1956, under Gomulka's leadership account for all the waste and inertia. American and British economists, on the other hand, hold that the pliant imitation of Soviet economic institutions and the overstraining of Polish industry to satisfy Soviet demands brought Poland to the verge of collapse in June, 1956. Even more radical reforms than Gomulka has so far dared to introduce will, they feel, be needed to do away with the supine indifference of workers and staff in socialized enterprises, restore the peasants' willingness to invest in land and equipment and to mitigate squandering of manpower and resources.

Yet, if you look at the statistics themselves, there hardly seems to be cause for alarm. Why worry about workers' absenteeism, inflationary pressures, or waste in nationalized enterprises when real wages have risen 25 per cent in the last three years; when industrial output–99 per cent of which comes from state-owned or cooperative plants–has been growing by about 10 per cent every year; when even the recovery of farm output, which had been held back in the early

1950s by the adverse reaction of the peasantry to collectivization drives and to the persecution of wealthier farmers, has been proceeding apace–with a 15 per cent increase in the last three years?

If only Gomulka could be sure these gains were based on solid achievements and would not be frittered away in coming years, his mind could rest at ease. In that case, he need not fear that the workers of Warsaw, Poznan and Lodz would strike for higher wages or set up barricades if their situation were to deteriorate. For the present government, which has abjured the use of police terror to beat down popular discontent, cannot risk another drop in the living standards of workers such as occurred between 1950 and 1953.

Softened policy

Gomulka's trouble is that some of the most powerful factors that went to improve the consumer's lot in 1956 and 1957 are not likely to recur. The improvement in food supplies, for example, owed a good deal to the softening of governmental policy toward the peasants: compulsory milk deliveries were abolished, purchase prices of meat and grain delivered to the state were raised and, most important, the government pledged itself never to resort to forced collectivization again. As down payment on this promise, the government had to countenance, in late 1956, the spontaneous breakup of four out of every five collectives, together with the dissolution of the Village Machine Stations, which had been used by the Ministry of Agriculture and by the party to control private farmers and to pressure them into collectives.

But these measures of clemency were one-shot affairs, and the lip service the regime has had to pay to the eventual victory in People's Poland of "voluntary collectivization" has vitiated their effects by discouraging long-term investment. The recent official compaign in favor of "Agricultural Circles," a newly created cooperative institution bearing striking resemblance to the old Village Machine Stations, has not helped matters either. As one Polish economist put it to me a couple of months ago: "Every time the Minister of Agriculture makes a speech, private investment in cattle, farm buildings and equipment falls off by a few million zlotys."

Adverse trend

Other sources of improvement in economic conditions are also drying up. In late 1956 and early 1957, Poland enjoyed a tremendous windfall in its export trade when prices for coal, the economy's main foreign exchange earner, shot up under the impact of a European fuel shortage and of the Suez crisis.

Coal prices have already slipped back some 30 per cent, while the prices of Polish imports have held firm. This adverse trend in the terms of trade has cost the Polish economy more than $150 million.

Another benefit that may turn out to have been ephemeral was the generous financial aid Poland received from the Soviet Union and from the West in the year following the Poznan riots. Between September, 1956 and June, 1957, the USSR lent Poland some $300 million and, under pressure from Gomulka, canceled half a billion dollars worth of debts incurred by the Poles after the outbreak of the Korean war. The United States pitched in the first year with nearly $100 million; Poland came back for an equivalent subsidy in 1958. Modest credits–mainly of a short-run nature–were also tapped in France, in the United Kingdom and in other European countries. Most of these loans will have to be repaid in the 1960s. Thus, the Poles, after having lived beyond their means for two or three years, will now have to consume less than they produce–unless the government can latch onto more foreign credits, an unlikely prospect as long as Poland keeps inching back into the Eastern fold.

In the last few years the proportion of national income devoted to investments and armaments has dropped, releasing valuable resources for consumption. Output did not suffer from this, however, because those investments that were made had a more powerful effect in raising production than the larger volume of investments of former years. This was in part due to a more discriminating allocation of funds, but mainly to the fact that many large projects launched during the Six-Year Plan (1950-55) and nearing completion in 1956 and 1957 required only small sums to bring them to full-scale output.

Exhausted possibilities

By 1960 the possibilities of raising output by rounding out or touching up large projects initiated in earlier years will have been exhausted. The Five-Year Plan scheduled for 1960-65 calls for heavy capital outlays which will be devoted to brand-new projects such as the construction of a second aluminum refinery, the sinking of numerous coal mines and the exploitation of sulfur deposits near Tarnobrzeg. These heavy investments will raise the ratio of investment to national income and reduce *planned* increases in consumption per head to about five per cent per year, or below the gains actually *achieved* between 1956 and 1959.

These planned increases are still quite respectable. But will they be realized? Nothing is less sure. The plans make little allowance for un-

favorable circumstances. Moreover, "Stalinists," who favor a second all-out industrialization drive such as Poland endured during the Six-Year Plan, are demanding that more projects be undertaken in the Five-Year Plans than were originally scheduled. They have already won two victories: in March of this year the net investment ratio for 1965 was raised beyond original estimates; and in June a resolution was approved by the Central Committee of the party to load another 24 billion zlotys of investments onto the old Plan, an added burden that will probably cut into private consumption.

Increased efficiency is the only reliable way to try and meet the consumption goals set by the party to keep the population pacified. And this brings us to the animated discussion of Polish economists that has been going on since 1956 concerning the reforms that might be introduced into the "model" of the Polish economy to remedy some of its shortcomings.

In the heady days that followed Gomulka's accession to power in October, 1956, there was a good deal of talk about a return to the three-sector model that had been tried out between 1945 and 1948. This scheme would have left all major industrial enterprises in state hands but would have given the cooperative and private sectors guarantees of unfettered development in all fields not specifically pre-empted by the state. Some progress was actually made by cooperatives in industrial and handicraft production–their share rising from 10 to 14 per cent of output between 1955 and 1958–and by private handicrafts, the value of whose services rose by one-third from 1956 to 1957. But private industry, despite recent increases, has remained negligible: less than one per cent of total industrial production. There are no prospects for any radical change in the present proportions in coming years.

Hoped for reforms

Most of the discussion among Polish economists has actually turned on how state industry and trade should be operated for maximum efficiency. Many economists hoped for basic reforms along the lines set by the decentralization of the Yugoslav economy in 1952. They wished to dismantle the top-heavy planning machine–with its apparatus of industrial ministries, "central boards" and "trusts"–which administered production to the smallest detail. They urged that the Planning Commission confine itself to the general guidance of the economy through the price system and through financial controls, leaving nationalized enterprises free to make profits for the state by producing goods in demand at the lowest cost. This, they

argued, was the best way to restore the initiative of producers, stifled by years of petty regulation.

But by 1958 it had become clear that the Polish economic system would not stray very far from its Soviet model. Even the workers' councils, which had been set up in many Polish factories under Yugoslav inspiration and had acquired a measure of control over plant affairs, have not preserved their original form and have been subordinated to the state-controlled trade unions.

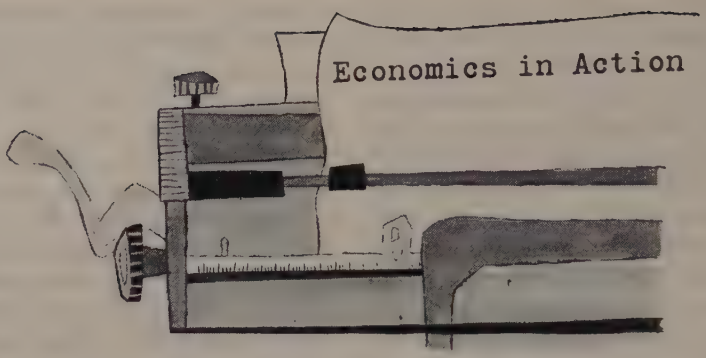
Can the Poles look to any improvements in their economy if basic reforms are ruled out? I believe they can. Even if the Poles have to stick to their old, Soviet-ordained institutions, there is still a good deal of room for improvement within these confines. Already a more sensible personnel policy has improved the quality of planning. Good economists are now being recruited for key posts, with far less regard for their political reliability than in the past. Plans are laid realistically, with more adequate reserves for unfavorable contingencies; hence there are usually enough–or close to enough –materials to fulfill production tasks, and firms no longer find it necessary to shut down periodically for lack of essential spare parts or materials.

In the field of foreign trade, the situation is fast improving. The Poles have shifted a part of their trade to the West, and they are making sure that all their trade with the East is conducted at the most advantageous prices. Exploitation by the Soviet Union, which used to import Polish coal and zinc at below world market prices, is a thing of the past. Investment projects are now more carefully appraised in terms of costs and returns than in the pre-Gomulka period. Finally, a more relaxed planning procedure and the gradual delegation of operational powers from the Planning Commission to the several industrial ministries have helped improve the accuracy and timing of the plans.

At the present time, this new spirit of rationalism, which tends to curb the excessive ambitions of the proponents of industrialization at any cost, is the Poles' main bulwark against a return to what they call "the mistakes of the past." Most Polish economists believe that Gomulka and his team will hold fast to these modest achievements. ■

For Home Consumption

IN ALL, not more than seven per cent of the world's agricultural output–including tea, coffee, cacao, cotton, rubber and wool–is exported; the rest is consumed within the borders of the producing countries.



where to?

Where the economy goes from here on until the end of the year will largely depend upon how soon the steel strike is settled. Through August the impact has been minor–less than most people expected. Steel inventories held, and it is expected that they will hold through September. After that the pinch will start, especially when the auto manufacturers go into mass production of their 1960 models. A Taft-Hartley intervention then becomes a definite probability.

the labor force

In spite of the steel shutdown, activity in most other durable-goods industries continued to expand, while nondurable goods also moved up through July. August figures, when they are available, will probably show a two per cent decline, but nondurables should remain steady. Nonagricultural employment hit an all-time high in July–60,769,000–and unemployment, including those on strike, declined from 3,982,000 to 3,744,000. But with the labor force increasing even faster, unemployment (seasonally adjusted) climbed to 5.1 per cent of the labor force, a 0.2 per cent rise.

strike effects

Largely as a result of the steel strike and the slowdown in autos for model changes the number of hours worked in durable goods declined from 41.4 to 40.8 hours per week. A $1.85 decline in average weekly

wages paid by durable-goods industries occurred in July –after only two weeks of the steel tie-up. These trends will become more pronounced in the August figures, suggesting in a small way what the effects of a long strike could be.

pressures

A continued spell of stable prices is a sure thing as long as the strike is on. But the longer the strike lasts, the greater will be the demand from steel-hungry industries, which means inflationary pressures regardless of the terms of the steel settlement.

prices

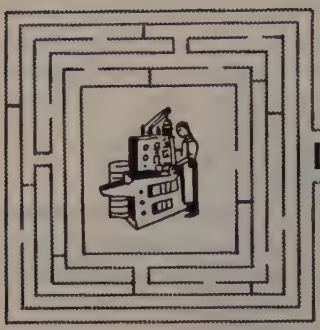
So far, the boom has proceeded with virtually no inflationary effects. The wholesale price index, for example, stood at 119.5 in July (1947-1949 = 100) or just about where it stood in January. The cost of living index did, it is true, continue to rise, but most of the increase was in food prices, and agricultural experts do not expect this increase to persist through the fall.

money rates

Right now the most rapid climbing cost is the cost of money. In New York, the prime rate (which banks charge their biggest and best risks) stands at five per cent–the highest level in 28 years. Money rates in other cities are following New York's example. Mortgage rates can also be expected to go up.

a trend

The prospect is for the supply of money to get even tighter in spite of higher interest rates. Commercial loans for the first six months of 1959 soared to a record $428 million, and the demand for money is increasing as business stocks up for fall and winter business. With demands for installment credit mounting, all the elements are present for a resumption of the inflationary trend that has marked the postwar period. All that is needed now is a return to peak production in the steel industry. An auto boom should cap it. ■



DOES INFLATION STIFLE PRODUCTIVITY?

An economist looks at the record and concludes that, during the past 20 years, high prices have been accompanied by increases in productivity

by Benjamin Caplan

■ THE POSTWAR RECORD of the United States has been marked by sizable growth, relatively full employment–and chronic inflation. This triple conjunction has created much concern over the long-term trends in our economy. Even though prices have been comparatively stable for the last two years, the national concern persists because of the feeling that the current price stability is only a temporary aftereffect of the 1957-58 recession. As growth continues, inflationary trends will, it is feared, resume.

Since continued growth at virtually full employment is an objective of national policy, the existence of chronic inflation raises a fundamental question: Does a policy of full employment weaken traditional restraints on wages and prices? If businesses and labor unions *believe* that public policy will always create the demand needed to absorb output at ever higher price levels, will they not be tempted to raise prices and wages with impunity? The behavior of prices during the three modest postwar recessions gives some support for this view. As has been pointed out in a previous article [*Techniques of Administering Prices*, November, 1958], one of the striking features of our postwar price system has been its increasing "one-sided" flexibility–prices rise in periods of economic upswing without falling in periods of decline. Indeed, during the last recession, the decline in the *average* level of prices was scarcely perceptible, although some individual prices such as copper did fall sharply. It is this phenomenon which has led some people to dub

the era we live in "The Era of Inflation."

What has been the impact of this inflation on our rate of growth? The postwar period has seen the greatest rate of investment and the greatest outpouring of goods and services in our history, although some have argued that even this rate of growth has been insufficient. But unless our rate of over-all growth is accompanied by greater output *at lower costs*, a higher rate of growth supported by a higher level of demand would still prove inflationary–and might, in fact, intensify inflationary pressures.

The long-run key to lower costs or, at least stable costs, is, of course, increased productivity. Here, an even more fundamental question arises. Since waste and inefficiency can flourish in an inflationary environment with financial impunity, do continuous high levels of demand tend to weaken the long-run drive to increase productivity? If the answer to this question were "yes," we would be in a sorry state, indeed. Not only would this threaten the prospect of an advancing standard of living, but our very security would be seriously affected.

Fortunately, there is no evidence as yet that relatively continuous high employment and its chronic companion, inflation, weaken productivity. If anything, the evidence points in the opposite direction.

According to a recent study by the National Bureau of Economic Research, output per man-hour (including government employment), increased by between 15 and 33 per cent every decade between 1890 and 1939. Since 1939 there has been a marked acceleration in the rate of productivity increase–38 per cent for the decade 1940-49, 41 per cent for the decade 1948-57. Since this is also the longest period of relatively full employment that we have had since 1899, the evidence would indicate that the expectation of full employment results in more productivity, not less.

What is especially remarkable about the National Bureau's findings is the persistence of productivity advances under all kinds of economic conditions. Productivity grew substantially during the period 1920-29, when prices were relatively stable, during the inflation of the last two decades and even during the depression of the 1930s. The fact that productivity grew substantially during the Great Depression highlights an important truth: an increase in productivity does not automatically result in an increase in total output. Between 1930 and 1939, output per man-hour increased 18 per cent, but total output changed only slightly and, on a per capita basis,

actually declined. Of course, the insufficiency in total demand prevented an increase in total output. On the other hand, the experience since 1939 seems to show that an increase in total demand stimulates increased rates of productivity. This fact has led many people to suggest that a mild dose of inflation is the best way to achieve growth *and* increased productivity.

Remarkable record

Also remarkable is the fact that the higher rate of productivity of the postwar period was achieved in spite of the fact that a rapidly increasing proportion of our total output consists of services. During the last 10 years, expenditures for services have doubled; today, services account for about one quarter of our total output.

Now, this poses a problem. Services, by their very nature, are least susceptible to productivity increases–and such increases are, in any case, extremely difficult to measure. To take an extreme example, can there be an increase in the "productivity" of doctors and hospitals–and, if so, how do we measure it? The field of services bristles with difficulties of this type.

It may be expected, therefore, that as more of the resources are devoted to the production of services, the effect would be to slow up national increases in output per man-hour. So far, this has not happened. But if the trend toward services continues, it is possible that it will begin to do so in the future.

There is another difficulty. In seeking to assess the effects of relatively continuous full employment on productivity in specific industries, it must be remembered that in a dynamic economy new industries are continually arising while other industries are declining. Consequently, we find great variations among different industries during the same period.

Life cycle

In the early stages of an industry's life, its rate of productivity is very rapid, for in this stage the new industry tends to enjoy the benefits which accrue from developing into a mass-production industry. But as the industry becomes more mature and its rate of growth slows up, further productivity gains will be increasingly dependent on technological developments which may proceed unevenly.

Data published by the Bureau of Labor Statistics for 23 industries ranging from mining to malt liquors disclose marked differences in rates of productivity advance. For the period 1947-57, only one industry, the telegraph industry, showed a reduction in productivity, and that industry, significantly, may be classed as a declining industry. If

demand for telegraph services were expanding, productivity would certainly show sizable gains.

Of the remaining 22 industries, 14 had increases in excess of 40 per cent. Of the remaining eight, the lowest rate of increase was reported by iron ore–under eight per cent. Since our resources of iron ore are dwindling, and mining the ore is becoming more difficult, the fact of any productivity increase is a noteworthy accomplishment.

It is of interest to look more closely at the experience of two industries, steel and bituminous coal. During the postwar period, steel has become a public symbol for inflationary price and wage increases. Because of its strategic position, wage and price trends in steel have frequently been regarded as the initiator of inflationary pressures in the economy as a whole. Coal had also been a symbol of strife in earlier periods. Today, however, it has become much more quiescent. Steel is an example of an expanding industry, having increased its capacity some 60 per cent since 1946. Bituminous coal, on the other hand, produces less now than it did at the end of the war. Steel prices have increased almost 50 per cent since 1952, while the price of bituminous coal at the mine has fluctuated at around $5 a ton since 1948. In both industries, wage increases have been large, with coal miners now earning $3.27 an hour, against $3.10 for steel workers.

Productivity increases in bituminous coal mining have been much greater than in steel in the postwar period. Between 1947 and 1957, output per man-hour increased about 65 per cent in coal, while the increase in steel was about 30 per cent. Does the ability of steel to raise wages and prices account for its lower rates of productivity? I do not think so. Bitu-

When Price Is No Object

A PERIOD OF hyperinflation, such as Germany experienced in the 1920s, can lead to bizarre behavior: "There was an enormous amount of buying which, under other circumstances, would have been quite senseless. People purchased not what they wanted to use but whatever they could get, and the function of prices was almost completely abrogated. One could produce anything material and be sure of a market. Corporations could not wait to distribute dividends to stockholders. . .(and) profits were immediately invested in 'improvements' with little regard to the future or even present usefulness of such investments except as they were not so grossly inefficient storers of value as money had become." –Frank D. Graham in *Exchange, Prices, and Production in Hyper-Inflation*

minous coal has lost many of its markets to fuel oil and natural gas, and has, therefore, been under great pressures to keep its prices competitive. But that is only part of the story. During the postwar period bituminous coal mining experienced a major technological revolution with the development of new machines which have vastly increased output per man-hour and the shift to strip mining. As a result of these innovations, the number of coal miners has declined 50 per cent since 1944.

New development

Steel, on the other hand, is only now coming into a major new technological development, the basic oxygen process. By the end of 1958, only four million ingot tons of capacity was of the basic oxygen process and three million of this was added in 1958. This new process promises substantial increases in productivity in the future.

In general, the available evidence clearly shows that the forces making for productivity increases have been at least as strong during the postwar period as before, in spite of chronic inflation. In fact, it can be argued that the forces making for productivity increases are greater than ever before.

The reasons for this are inherent in our industrial system with its built-in dynamics of technological improvement. Our system began with the English Industrial Revolution and that take-off has generated a momentum which has continued ever since, whether prices were rising or falling. In our time, we have witnessed the vast changes brought about by electronics with the emphasis on automation, high-speed electronic computers, the oxygen process for steel mills, high-speed textile machinery–to mention a few examples. What is more significant is the large and increasing amounts being spent for research and development by business. Here an environment of relatively full employment is a positive incentive. High levels of business generate large flows of funds which enable business to expand its investment in research and development.

The existence of growth and relatively full employment does not, of course, guarantee any firm or product an assured market. The economy is too dynamic for that. The development of new products and processes, shifts in consumer demand, international competition –all of these factors mean that the businessman who relies on a "safe" market and chooses the quiet life will wake up one day and find himself without any market. Alert businessmen are extremely cost conscious. The popularity of linear programing, operations research and other techniques designed to increase managerial efficiency with

"inflationary" industries is testimony on this point.

This is not to say that waste and inefficiency do not exist. There is undoubtedly truth in the contention that high levels of prosperity tend to encourage a certain amount of waste and inefficiency. The fact, for example, that in the 1957-58 recession, numerous corporations embarked upon cost-cutting programs, paring overheads, tightening up cost controls and so on, would indicate that there was room for improvement. This is to be expected and there is no evidence that it reflects an unusual situation. There is always room for improvement. Inefficient management is not unique to this period and, as always, the price of survival is success.

Weight of evidence

But the available evidence does not indicate that chronic inflation weakens the drive to greater productivity; if anything, it points in the opposite direction. In fact, the greater flow of funds generated by high profits spurs investment which results in greater productivity. Agriculture is a prime example of this. Operating under price supports, the flow of funds has stimulated such a tremendous rate of investment in machinery, new types of seeds and fertilizers, that our problem is one of great surpluses caused by the great technological revolution in agriculture. With lower incomes, the productivity increases in agriculture would probably have been far less.

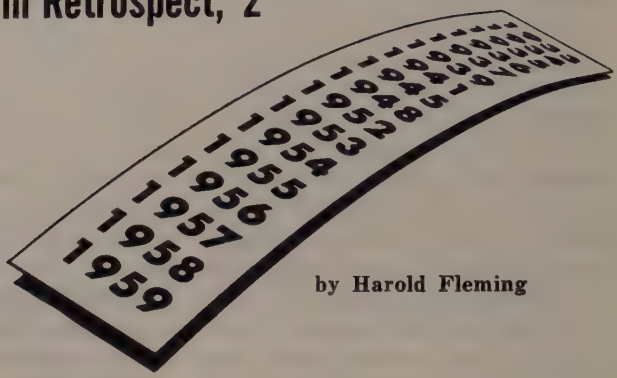
Thus, whatever problems might be created by chronic inflation, a dampening of incentives to great productivity is not one of them. We are witnessing far-reaching changes in technology with no sign of any abatement in the pace of change. The new technologies require vast sums of money to finance their transformation into productive form. High levels of prosperity, which provide the funds necessary for financing this kind of investment. will facilitate the rapid introduction of the new techniques into industry. ■

Answers to Challenge Quiz

(see page 79)

(1) True *(see page 9)*
(2) False *(see page 30)*
(3) True *(see page 64)*
(4) True *(see page 34)*
(5) False *(see page 71)*
(6) False *(see page 25)*
(7) False *(see page 19)*
(8) False *(see page 45)*
(9) True *(see page 51)*
(10) False *(see page 17)*

The New Deal in Retrospect, 2



by Harold Fleming

(In the interest of impartiality, CHALLENGE *presents a second retrospective view of the New Deal. A rather different evaluation appeared in the June, 1959 issue. In each case, the views are the author's and not necessarily those of the editors or New York University.)*

■ IN THE FALL OF 1932, near the end of a Presidential campaign which he knew he was about to lose, President Hoover said:

"This campaign is more than a contest between two men (or) two parties. It is a contest between two philosophies of government.

"This election is not a mere shift from the ins to the outs. It means deciding the direction our nation will take over a century to come.

"If. . .these promises (of his opponent Franklin D. Roosevelt)... mean anything, they mean the enormous expansion of the federal government;. . .the growth of bureaucracy such as we have never seen in our history."

I believe that Hoover was right. The overwhelming vote of confidence given candidate Roosevelt was followed by a staccato series of laws of bewildering and unpredictable variety. But a pattern did begin to emerge.

The first reform was the National Recovery Act. The NRA exempted businesses from the Sherman Antitrust Act and enabled them to set up price-fixing and wage-fixing codes. The law originated with the U.S. Chamber of Commerce, whose officers had originally suggested the idea to President Hoover and, when he rejected it, had promised to vote against him. In 1935, the NRA was outlawed by a unanimous Supreme Court as an unwarranted delegation of power by Congress to private business.

Though the NRA died, its spirit lived on in the increasingly cartelized organization of trade. Thus the Agricultural Adjustment Act and the Farm Marketing Act sought to raise farm prices by setting up compulsory limits on production. The Jones-Costigan Sugar Act put the domestic sugar market under a tight system of controls and the Guffey Act did the same for bituminous coal (as did Pennsylvania's Kane Act for anthracite). The January, 1934 gold revaluation in effect raised the tariff on everything by more than 50 per cent. Even so, new tariffs were imposed or old tariffs raised on many farm and mining products. The silver-mining states, for example, were given a substantial subsidy in the guise of monetary legislation, and politically uncertain areas of the country like Tennessee and the Pacific Northwest received hydroelectric power subsidies.

The federal government entered three major industries–power, housing and insurance. Other segments of business, including practically all of Wall Street, and all industrial labor relations, were now brought under federal regulation for the first time. These new laws were much more than regulatory. Their first drafts, originating in the White House, were in many cases destructive, while their final drafts, as passed by Congress, were both punitive and vague. The National Labor Relations Board, for instance, ran interference for the CIO against the AFL, for the AFL against local unions and for local unions against company unions. AFL president Green in 1938 called its biased orders a "travesty on justice."

New Deal fiscal policy was elusive. The only thing certain about it was continued deficits. Candidate Roosevelt had severely criticized the preceding Administration for its deficits and promised to cut expenditures by 25 per cent. But, in the eight years between 1933 and 1940, the New Deal ran deficits of about $3 billion a year, more than doubling the national debt in the process.

At first this was called "pump-priming"; then "compensated economy"; then "capital investment"; and then "functional finance." In its budget messages the Administration argued first that outlays must be increased to help the poor and prime the pump; then that taxes had to be raised to balance these outlays; then that outlays had to be increased to exceed these taxes; and so on. In this way, both sides of the budget were steadily raised.

When the New Deal Administration took over in 1933, about 18 million people were on relief. The system of relief, worked out under President Hoover and in part influenced by the pattern of Hoover

relief operations in Europe after World War I, was largely on a local and voluntary basis. The incoming Administration scrapped this set-up and replaced it with a wholly federal-controlled operation, free of civil service. The economic result: "boondoggling" more than doubled costs per person helped. But the voting results were different.

'Playing by ear'

The theme of the New Deal, as outlined by Roosevelt, was "economic planning." But no clear pattern of "enlightened administration" emerged. The White House was plainly improvising or, as the saying then was, "playing by ear." As the emergency became permanent, many of the individual contradictions in New Deal policy merged into one basic contradiction: the conflict between efforts to increase the flow of economic energy and efforts to constrict it.

Thus on the one hand the Administration undertook to "prime the pump" of economic activity in order to provide jobs and a more abundant life for the "one third of the nation's ill-clothed, ill-fed and ill-housed." The Sherman Act was drastically reinterpreted to apply even where there was no predatory action (Alcoa case) nor any more violation of the law than the *power* to violate it (Tobacco, Schine and Griffith cases).

On the other hand, the cartel idea of holding up prices by limiting production was also pushed. Though NRA was killed, the same basic idea was applied to farm marketing quotas, higher tariffs and import quotas. The grocers' code became the Robinson-Patman Act and the druggists' code the Miller-Tydings Act. The "undivided profits tax" put a penalty on growth companies who plowed their earnings back into the business instead of paying them out in dividends.

Tightened and loosened

Just as the antitrust laws were both tightened and loosened, so in the Banking Act of 1935 the banking laws were both loosened and tightened. This Act put the Federal Reserve Board in charge of margin speculation; increased FDIC controls; and shut down on bank loans to officers. But it also virtually abolished the eligibility requirements for the rediscounting of bank paper, enlarged the national banks' rights to buy real estate mortgages, and discarded the requirements of gold redeemability and reserve-note collateral.

In general and "on balance" the White House "economic plan" appeared to be a cure for want-in-the-presence-of-plenty by destroying plenty.

But under these contradictions lay a consistent theme–the enlargement of the power of the Execu-

tive branch of the federal government. This was an invariable concomitant of all New Deal legislation. In the Banking Act, for instance, the key was the increased power the Act transferred to the Federal Reserve *Board* at Washington from the Federal Reserve *Banks*, particularly of New York and Boston. Cartel and monopoly powers were created for the federal government while they were being condemned for private business. States, also, lost power to the federal government. And within the federal government there were "rubber stamp" Congresses, and after FDR's unsuccessful "court packing plan" the Supreme Court was cowed. And of the Executive branch of the federal government, the greater part of the new power went to the White House.

Economic record criticized

The economic record of the New Deal was the most dismal in American history. Recovery had already started in the summer of 1932, but was reversed the following winter by the refusal of the incoming Administration to cooperate with the outgoing Administration in coping with the rash of bank failures. There was no recovery again until 1941, when the war economy replaced the New Deal economy. As late as 1940 there were still between seven and eight million unemployed. Wheat was still selling at 80 cents, cotton at nine cents, sugar at two and three-quarter cents and copper at 11 cents. The rate of man-days lost in labor conflicts had more than doubled, and two million people had gone back to the farm. Meantime the net national debt had been more than doubled, from $20 billion to $47 billion.

How can we account for this miserable showing? Three major reasons stand out. First, the 1920s had brought an immense increase in our capacity to produce low-cost staples, while the 1930s brought immense efforts to prevent this increased capacity from coming to market. Second, investors and their managements were driven to the stormcellar by the constant political attacks on them. Lastly, the Keynesian idea that government deficit spending could compensate for the discouragement of private capital outlays was not borne out by events. It was an historic irony that Wendell Willkie campaigned against the New Deal in 1940 by stressing not so much the erosion of the American political system as the failure to provide *jobs*. In providing Americans with the security of a good job market, the New Deal's best had been no better than the "old deal's" worst.

How permanent has been the legacy of the New Deal? Many New Deal reforms and innovations, such as federal old-age and unem-

ployment insurance, federal regulation of Wall Street and coordinated development of water resources, are obviously here for good. But these reforms are not peculiar products of the New Deal. They were "in the air," and it is a reasonable guess that they would have become law if there had been no New Deal.

Thus the Glass-Steagall Act of 1933 (banking reform) was Republican-written. The Pecora investigation of 1932, which laid the groundwork for federal regulation of Wall Street, was a Hoover idea. Hoover had urged federal unemployment insurance and a federal scheme of old-age insurance, and guided the long preliminaries to the Colorado River Compact, ratified by Congress in 1929–from the start, a bigger project than TVA. For such reasons Hoover has been called the "real father of the New Deal."

Larger role

Long before the New Deal, the Coolidge and Hoover Administrations had helped abolish the 12-hour day; put through a substantial flood-control project on the Mississippi; set up the Federal Power Commission; and pushed through a Republican Congress the Constitutional amendment prohibiting child labor (although the amendment was not ratified by enough states, and died).

What the New Deal uniquely added was a vastly larger role for the federal government, and particularly for the Executive Department of the federal government and, within that, for the White House.

Today this specific New Deal heritage has come to mean a dropsical bureaucracy, a federal budget virtually out of control, claims of "Executive privilege," which once would have been called arrogant, and a "welfare state," which represents not the "greatest good of the greatest number" but the welfare of an aggregation of special-privilege groups–farmers, veterans, minerals producers, old folks and, particularly, federal office holders.

This heritage of the New Deal remains popular because the idea of a Great White Father is human and natural–as is the idea of "Since they're giving things away, I want to get mine." The New Deal broke down traditional inhibitions against this way of looking at "the government." That was bad. But, like Communist victories at the polls, the assignment of powers to a central authority seems to be irreversible. ■

Declining Horsepower

THE NUMBER OF HORSES in the world has been declining continuously from 114 million in 1928 to 90.5 million in 1938 and 76 million in 1950.

THE PERMANENT FRONTIER

No. 18: World War I brings comprehensive government regulation into the nation's economic life

■ NATIONWIDE economic planning and control as attempted by the federal government during World War I was largely without precedent in the history of this country. During the Civil War, the Union and Confederate governments had instituted controls over the economies of the North and South, and the Progressive Era introduced antitrust laws and interstate commerce acts to check the disparities that developed in the economy because of rapid industrialization. But none of these were nearly as thoroughgoing as the federal controls established during World War I.

For about two years before the United States entered the war, its economy was stimulated by the sale of goods and the extension of loans to the European belligerents. Between January, 1915, and April, 1917, the Allied countries alone borrowed enough American money and sold enough of their securities to Americans to add $5 billion to the purchasing power of the American economy. This was a substantial percentage of U.S. national income at that time.

Shortly after the fighting in Europe broke out, the Allies began to order large amounts of all kinds of American products. These heavy demands initiated a boom period in our economy which resulted in a crisis of confusion. Prices began to rise sharply and the tendency toward inflation was unchecked. American factories were plagued by shortages of raw materials. Backlogs of orders started to pile up. Labor shortages and strikes multiplied. Railroad freight traffic to the eastern seaboard could not handle the phenomenal amount of

This is the 18th article of a series in CHALLENGE which deals with the history and development of the United States economy.

produce bound for export to Europe. As the war progressed, Allied credit resources in the United States were rapidly depleted and the problem of paying for their purchases became acute. By the end of 1915, it was apparent that only a national program of planning and coordination under the auspices of the federal government could solve these problems.

Slow to mobilize

President Wilson, who at the beginning of the war was influenced by the pacificism of Secretary of State Bryan, was slow to mobilize the economy for our possible involvement in the war. But a rift between the two men developed after the sinking of the *Lusitania*, and by December, 1915, the President was before Congress asking for a stepped-up program of preparedness in which the chief objective was to build "a Navy second to none."

Eight months were to elapse before Congress created the Council of National Defense to administer the preparedness program. But when the U.S. went to war in April, 1917, a giant network of agencies emanating from the Council was already launched, ready to expedite the needs of the war effort. Heading the various agencies were leaders of industry, the so-called dollar-a-year men.

The responsibility for maintaining the liaison between the industrial community and the military establishments fell to the War Industries Board. Bernard Baruch was appointed its chairman. The Board began its work by drawing up an inventory of all the strategic and scarce raw materials available in the United States. It dispatched procurement agents to the four corners of the earth to find and purchase raw materials that were critically needed. Demands were analyzed and a system of priorities set up to make sure that the materials would go where they were most vitally needed. The Board also fixed the prices at which the materials would be sold, and it controlled the distribution of the finished products.

The War Industries Board encouraged manufacturers to reduce the number of styles and designs on their finished products. Everything from baby carriages to caskets was standardized and simplified in order to increase production and facilitate distribution.

To improve efficiency in the handling of freight traffic, the nation's railroads were commandeered and placed under the control of the Railroads Administration. Walter Hines, who had been made Director General, proceeded to merge the railroads into a single national rail system. This enabled the Administration to effect shorter routes, dispatch cars and locomotives where

they were most vitally needed and enforce common use of terminals. Under these unified operations, the average freight car load increased from 24.96 net tons in 1916 to 29.28 net tons in 1918. The freight car shortage of more than 100,000 in early 1917 was replaced by a freight car surplus of approximately 300,000 by the end of the year.

To Herbert Hoover's Food Administration fell the difficult tasks of regulating the production and distribution of food products. Price controls were begun–but only on the wholesale markets. Instead of food rationing, Hoover tried to encourage voluntary conservation methods. Customers were asked to buy substitutes for scarce foods. The processing of some foods was restricted, notably liquor and candy.

Wartime innovation

The establishment of the first government-owned corporations was a wartime innovation of considerable significance for later years. Two prominent examples were the United States Grain Corporation and the Emergency Fleet Corporation. These agencies were organized and run much like any private corporation, except that they were capitalized by the government and administered by appointees of the President. Their success set a pattern to be followed during the depression when, for example, the government built the Tennessee Valley Authority.

All in all, World War I cost the U.S. government about $24 billion. In addition, $9.5 billion had been loaned to the Allied countries during the war. By comparison, the "normal expenditures" of government for 1914-18 amounted to only $3,375,000,000.

The national debt grew from a prewar figure of about $1 billion to a peak of $24.5 billion on August 30, 1919. To meet the cost of the war, Congress passed the Revenue Act of October, 1917. The new law increased tax receipts by doubling the normal income tax rate from two per cent to four per cent, and by sharply increasing the graduated scale of rates so that those in the top income bracket paid 68 per cent instead of their former 13 per cent. Married persons with incomes above $2 000 and single persons above $1,000 were added to the tax rolls. Formerly, married persons with incomes less than $4,000 and single persons below $2,000 were exempt. Excise and excess profit taxes were also drastically increased. The new rates and the growth of economic activity brought the Treasury $10.7 billion more than it normally would have raised, and the sale of Liberty Bonds added another $23 billion.

But despite these efforts, the general price index kept rising

throughout the war. By 1918, wholesale prices of all commodities were 95.7 per cent above their 1913 level; food was up 108 per cent and manufactured goods had climbed to 98.4 per cent above 1913.

Both agriculture and manufacturing benefited from rising prices. The real income of farm operators and agricultural wage earners—after taxes—rose 25 per cent by 1918. Manufacturers, particularly those who made strategic war materials, also profited. United States Steel profits, for instance, which averaged $76 million a year in 1912-14, rose to $478 million in 1917.

It was hard for the average American wage earner to keep pace with the rising prices. By the end of the war, his annual income was 63 per cent higher than it had been in 1914. But the purchasing power of at least one group of wage earners, the industrial workers, had declined by about 25 per cent. Government workers also were especially hard hit because their salaries were fixed by law and few raises had been granted. To make matters worse, many workers were no longer tax exempt.

Trade and finance

Perhaps the most dramatic wartime economic changes were in the fields of foreign trade and international finance. The total value of our exports rose from $1.5 billion in 1914 to over $4 billion in 1917, while our imports declined from $864 million in 1914 to $318 million in 1917. The Allies were obliged to transfer to the United States more than $800 million in gold. At the same time, American investment abroad increased from $3.5 billion in 1914 to $6.9 billion in 1919. Foreign assets here during the same period dropped from $7.2 billion to $3.9 billion. For the first time, the U.S. had become an important creditor nation of the world.

For most Americans the war virtually ended when the armistice was signed on November 11, 1918. Rapid demobilization of the four million men in the armed services and the reconversion of the nation's economy to peacetime conditions were uppermost in the minds of the American people. By the end of 1918, most of the war-weary, dollar-a-year men had left their temporary posts in Washington and returned to their peacetime civilian jobs.

As much as the American people wanted to forget the war, the legacy it left upon America's economic status was significant. Internationally the United States replaced Great Britain as leader in the world economy. On the domestic scene, wartime planning and controls had a lasting influence. The federal government had entered the economy on a large scale for

the first time. Gross national product had grown by only 15 per cent, but government controls were highly successful in expanding the production of war materials, improving the allocation system for scarce materials and increasing the efficiency of the transportation systems. Physical production rose during the same period in a number of key industries: railroad transportation by 42 per cent, manufacturing by 37 per cent and mining by 34 per cent.

"Return to normalcy"

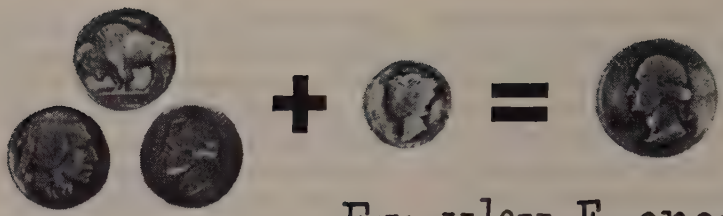
The very character of American industry was radically altered by the war. New industries, no longer supported by the needs of the war, began to search for consumer markets. Trade associations grew, modeling themselves after the industrial committees of the War Industries Board. The wartime movement for standardization of products and processes and for interchangeability of parts now became a prime objective of postwar manufacturers.

Despite our newly achieved prominence as a major world economic power, most Americans in 1919 were demanding a "return to normalcy." Wartime government-owned corporations were to be abandoned. The industries taken over by the government–the railroads, the telegraph, telephone, cable and radio systems–were to be restored to private control. In effect, all forms of government intervention were to be dropped.

"Return to normalcy" became the campaign slogan of the Republican party. In 1918, when the Republicans gained control of Congress, it was clear that they had sensed the temper of the people. In 1920, Wilson's leadership was completely repudiated by the election of the Republican Harding to the Presidency.

The American people had decided "it was time for a change." They wanted to return to 19th-century *laissez-faire* conditions. In 1920, an era of government interventionism ended, not to be revived again until the New Deal Administration of Franklin Delano Roosevelt. ■

NEXT MONTH: the "return to normalcy"



Everyday Economics

■ FEDERAL INCOME TAX deductions may be claimed for property damage due to an identifiable event of a sudden, unexpected nature. Progressive deterioration of a home from a normal process cannot be deducted; for example, the weakening of foundations through usual wind and weather conditions. The amount of deduction allowed is the difference in the value of the property just before and just after the event. However, the deduction cannot exceed the property's cost even if the difference in value is greater. Only the part of the loss not covered by insurance is deductible. Expenses incident to the casualty, such as the rental of temporary quarters or personal medical care, are not deductible.

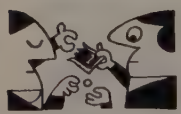
Family passport

U. S. PASSPORTS may be amended in various ways to suit the needs of the bearer. Upon written request, a passport may be amended to include or exclude the bearer's spouse and any minor children. Amendments are made by the Passport Office in Washington, D.C., by United States passport agencies and by American consular officers abroad.

Farm security

THE FARM rental income received from a tenant or share-farmer will be counted for social security purposes if the owner takes an important part in the management decisions or in the actual production of the crop. If the owner does not materially participate in this manner, his rental income may not be counted toward old age survivors insurance.

Mutilated money



A MUTILATED U.S. bill of any denomination may be redeemed at full face value if three fifths or more remain intact. If the holder presents less than three fifths, but

more than two fifths, he will receive half of the bill's full face value. Fragments of less than two fifths of a bill are not exchangeable unless satisfactory proof is given that the missing portions have been totally destroyed. The owner should sign an affidavit stating his ownership and the cause and manner of destruction. Mutilated bills may be redeemed by a bank or mailed to the Currency Redemption Division, United States Treasury Department.

The working wife

WHEN A woman marries, she should visit her social security office to return her old card and apply for a new one which will carry her married name and her old social security number. When the working wife retires she cannot draw benefits both as a worker and as a wife. She will receive her full monthly benefit as a retired worker, and if this amount is smaller than the amount to which she is entitled as a wife, she will be paid the difference in addition to her own old age insurance benefit. If her husband returns to work, the old age benefits of the retired woman worker will not be affected, even if he earns enough to cause suspension of his own benefits. But a woman receiving a wife's benefits will have her benefits suspended for any month in which her husband is not entitled to receive his own benefits.

Senior year

COLLEGE SENIORS who plan to work for the federal government after graduation can take the Federal Service Entrance Examination before they complete their studies. The examination is given every few months and is open to all college graduates and seniors regardless of their major field of study. Those who pass the examination may be considered for a variety of jobs, not just for positions in their special field of study. Persons with no college training may also take the exam if they qualify on the basis of experience alone or through a combination of education and experience.

Easy transfer

IN MOST states a parent who wants to buy stock for his child needs only to register the stock in his own name as custodian. He may buy, sell or reinvest dividends for the child. The parent must keep the account separate from his own. If income from the account is spent for the support of the child, the custodian will be taxed on that amount.–S. T.

The Economics of Freedom: American Capitalism Today. Massimo Salvadori. 227 pp. Garden City, N.Y.: Doubleday. $4.50.

•Although we frequently find fault with our economic system, few Americans doubt that we have benefited from it or that we shall continue to do so in the future. Prof. Salvadori, a European by birth and education, explains why this basic confidence is justified. The helpfulness of Prof. Salvadori's book is diminished by the fact that what he has to say has already been said, although perhaps not always as well.

* * *

The Crisis of American Labor. Sidney Lens. 318 pp. New York: Sagamore Press. $6.00.

•One of the curious aspects of the American labor movement has been its conversion of radicals into moderates. The indignant fire that burned in the hearts of labor's early leaders has been replaced by a prosperous and lazy desire to leave things as they are. Sidney Lens, who has been part of the American labor movement for 25 years and now heads a local union in Chicago, is greatly disturbed by this inability to muster the "evangelical idealism" that stirred both the workers and their leaders in the early days. The purpose of labor unions, according to Lens, has always been to fight injustice. But the wellsprings of its former energies seem to have dried up. He offers several proposals to give the rank and file more voice in union affairs. But who is to say that they will be any more interested than their leaders have been up to now?

* * *

American Trade Union Democracy. William M. Leiserson. 346 pp. New York: Columbia University Press. $7.50.

•Increasing public awareness of the importance of trade unions has created a demand for reliable information on union government in theory and in practice. The average layman will find that the late Dr. Leiserson's readable book admirably fills this need. Dr. Leiserson brings to his book the accumulated experience of a lifetime career in the world of labor relations, including a stint as first Chairman of the National Mediation Board and as a member of the National Labor Relations Board.

The author discusses unions as a form of government. He explains the relationship between members and nonmembers and among local, district and national unions. His discussion of union constitutions includes some interesting observations on the judicial processes adopted by unions and on how union executives are elected and perform their functions.

* * *

Charles de Gaulle: The Crucial Years, 1943-1944. Arthur Layton Funk. 318 pp. Norman: University of Oklahoma Press. $5.00.

•What to expect from Charles de Gaulle was as great a question in 1944 as it is today. De Gaulle's intransigence caused some to doubt his ability, others to dislike him, and still others (among them, President Roosevelt) to ignore him until all others had failed. De Gaulle's ultimate success was due to his ability to bring unity to French dissidence, thus presenting to the Allies a French government prepared to handle internal problems instead of the dismembered, leaderless country they expected to find.

* * *

Power Without Property. Adolf A. Berle, Jr. 184 pp. New York: Harcourt Brace. $3.75.

•Berle, whose books have done so much to familiarize Americans with the reality of our "new capitalism" has done it again. American capitalism, Berle argues persuasively, is no longer based upon the ownership of capital. This does not mean that there are no more "capitalists"; indeed, with more and more Americans owning stocks, real estate and other forms of property, the very reverse is true. But contrary to Marx (and 19th-century liberalism), property no longer confers economic, let alone political, power on its possessors. The men who own America's big businesses no longer run them any more than the men who run our government are the biggest "owners" (i.e., taxpayers) in the country. On the whole, Berle approves of this separation of ownership and management on the ground that it has led to more responsible management –and more affluent ownership. Considering the tremendous increases in living standards which Big Business has helped bring about, his attack on the "liberal" prejudice against bigness seems well taken. But the problem remains: as the power of the managers increases, who will control them, if not the owners? If our answer to this question is the government, then we had better be careful that the "new capitalism" does not degenerate into the old socialism.

* * *

The Language of Dissent. Lowell Mason. 314 pp. New York: World Publishing Co. $5.00.

•According to Mason, a former member of the Federal Trade Commission, the road to tyranny is paved with bureaucratic decisions. This tyranny manifests itself not in the "midnight knock on the door" of police agents, but in the calm, orderly proceedings of government agencies which combine the functions of investigator, prosecutor, jury and judge. Making free use of his own

clearly written dissenting opinions, Mason amply illustrates how well-intentioned bureaucracies can deny citizens due process, the right to compete, equal justice under the law and other constitutionally guaranteed freedoms. The picture he paints would be much more frightening were it not for the fact that many of his dissents were later upheld by the courts and are now binding on the bureaucrats.

* * *

The Schuman Plan: A Study in Economic Cooperation, 1950-1959. William Diebold, Jr. 750 pp. New York: Praeger. $6.50.

•This is a detailed, if rather long-winded, description of the operations of the European Coal and Steel Community, or Schuman Plan, during the first five years of its existence. Dr. Diebold, who is Director of Economic Studies at the Council on Foreign Relations, believes that the Community has already changed the economic face of Europe. But precisely what the impact of the Community has been, Dr. Diebold does not say–in part, because he believes that it is still too early to make any valid generalizations. This may very well be so, but the result is an informative rather than a challenging work.

* * *

Administrative Vitality. Marshall E. Dimock. 298 pp. New York: Harper's. $5.00.

•As organizations get bigger, so does the need for order and for bureaucratic routine. The result, all too often, is a smoothly running organization with less and less enterprise to organize. Prof. Dimock, Chairman of the Government Department at New York University and an experienced government administrator, recognizes the problem. Although the subtitle of his interesting book is "the conflict with bureaucracy," he is less concerned with conflict than with accommodation. Personal initiative and bureaucracy need not conflict, although they often do. Whether Dr. Dimock's specific suggestions will be enough to sustain originality in large organizations partly depends on the values of the society in which organizations exist. That his recommendations are eminently sensible, however, cannot be disputed.

* * *

A Moral Philosophy for Management. Benjamin M. Selekman. 219 pp. New York: McGraw-Hill Co. $6.00.

•The managers of business (as of any other organization) are daily confronted with "moral" issues. Certainly, most businessmen have a sense of responsibility which impels them to do the "right" thing, not only the legal thing. Problems arise because sometimes (although by no means always) the right course of action is not the profitable course. Indeed, in a competitive environment where some men are more moral than others, a "moral" policy may sometimes involve a business loss. What, under these circumstances, should the responsible businessman do? Prof. Selekman, Professor of Labor Relations at the Graduate School of Business Administration, Harvard University, gives interesting and extremely practical answers. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 63.

(1) Our gross national product declined 30 per cent at constant prices during the depression of the 1930s.
True ☐ **False** ☐

(2) At the present time, one scientific or technical worker is employed for every 100 persons in the United States labor force.
True ☐ **False** ☐

(3) Under the National Recovery Act, passed during the 1930s, U.S. business was permitted to set up price-fixing and wage-fixing codes.
True ☐ **False** ☐

(4) The Tennessee Valley Authority uses steam plants to generate most of its electricity output.
True ☐ **False** ☐

(5) World War I cost the United States government more than $30 billion.
True ☐ **False** ☐

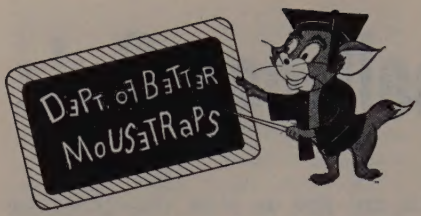
(6) The Rome Treaty, which established the European Common Market, was ratified by a slim majority of the French National Assembly.
True ☐ **False** ☐

(7) During World War II, the pressures of combat duty were responsible for half of all U.S. Army discharges for unfitness.
True ☐ **False** ☐

(8) Any West German citizen is eligible to purchase shares in state industries which are being denationalized.
True ☐ **False** ☐

(9) In Poland, real wages have risen 25 per cent in the last three years.
True ☐ **False** ☐

(10) Retail sales taxes are the most productive of all non-property taxes levied by the governments of large U.S. cities.
True ☐ **False** ☐



From the World of Industry: Portable instrument that ultrasonically measures thickness of metals, speeds up maintenance work by providing quick detection of areas of damage and corrosion in pipelines, tanks, etc. . . .Safety glasses for industrial workers that resemble sunglasses and are lighter and more comfortable than goggles.

* * *

The Home Workman: *A cleaning device that restores paint roller covers to their original soft, pliable condition. It fits any standard one-gallon paint can and may also be used to clean paint brushes and mix paint. . .A hand-powered lawn sweeper throws leaves and other debris into a basket. The sweeper adjusts for work on grass, cement, gravel, dirt, etc., and folds flat for easy storage . . .A lightweight garage door made of glass fiber that admits light in the same manner as frosted glass. It is weather resistant, shatterproof and will not warp.*

* * *

Cook's Helpers: A spice can holder that attaches to the underside of top shelf of wood or metal kitchen cabinets. It turns like a lazy susan for easy selection. . .A miniature electric oven with controlled heat; just the proper size for warming frozen foods and rolls at the table.

* * *

Children's Corner: *For children up to age four, a new version of the traditional hobby horse. The horse has a metal body and legs and actually "walks" with a stiff-legged gait when pulled or propelled by the child. . .A toy wall clock that can be assembled by very young children. Its plastic wheels and cogs are plainly visible, showing what makes it "work." The clock keeps time and its large face and clear markings make it easy to tell time. . .A home bowling set that is regulation size and made of hollow light plastic. The balls and pins can be filled with the right amount of water to increase their weight to suit the needs of players of all ages.*

* * *

Traveler's Aid: An auto map light that plugs into the dashboard cigarette lighter. A plastic shield keeps the light below the driver's line of vision and shields the user's eyes.

* * *

Around the House: *A plug lock designed to keep plugs secure in wall outlets, thus preventing refrigerators, freezers and other electrical equipment from accidentally unplugging. The lock is doubly useful when there are small children in the house . . .A food cutter with two replaceable steel blades, one straight and the other corrugated, can be adjusted to any thickness. The cutter shreds cabbage, slices potatoes and cuts corn from the cob.*

* * *

Hunting Season: To keep guns rust-free, a storage bag of transparent polyethylene and two rust-inhibitor discs to attach to the trigger guard and barrel of the gun. The discs release chemical vapors that prevent rusting.

* * *

Write to CHALLENGE *magazine for further information.* ■